

**RUSSELL COUNTY
SCHOOL DISTRICT
AUDIT REPORT
JUNE 30, 2018**

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October 5, 2018

INDEPENDENT AUDITOR'S REPORT

Members of the Board of Education
Russell County School District
404 South Main Street
Jamestown, KY 42629

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Russell County School District as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Russell County School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, *Appendix I to the Independent Auditor's Contract – Audit Extension Request*, *Appendix II to the Independent Auditor's Contract – Instructions for Submission of the Audit Contract*, *Audit Acceptance Statement*, *AFR and Balance Sheet*, *Statement of Certification*, and *Audit Report*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Russell County School District as of June 30, 2018, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note A to the financial statements, in 2018, the District adopted new accounting guidance, GASBS No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedules of the district's proportionate share of net pension liabilities, or the schedules of the district's proportionate share of net other post-employment benefits on Pages 4 through 10, 57 through 58, and 61 through 63 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Russell County School District's basic financial statements. The combining and individual nonmajor fund financial statements, and the statement of receipts, disbursements and fund balance – High School Activity Fund are presented for the purpose of additional analysis and are not a required part of the financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements, the statement of receipts, disbursements and fund balance – High School Activity Fund, and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund

financial statements, statement of receipts, disbursements and fund balance – High School Activity Fund and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated October 5, 2018, on our consideration of Russell County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Russell County School District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Russell County School District's internal control over financial reporting and compliance.

Sincerely,

White and Company, P.S.C.

Certified Public Accountants

**RUSSELL COUNTY PUBLIC SCHOOL DISTRICT – Jamestown, KY
MANAGEMENT DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2018**

As management of the Russell County School District (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2018. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the financial statements.

FINANCIAL HIGHLIGHTS

- The June 30, 2018 cash balance for the District was \$1,292,026, as compared with the beginning cash balance of \$2,772,118. The ending cash balance consists of General Fund of \$452,956, Special Revenue of \$0, District Activity Fund of \$2,076, Capital Outlay of \$0, Building (FSPK) Fund of \$0, Construction Fund of \$16,952, Debt Service Fund of \$0 and Food Service of \$820,042.
- District-wide net position decreased \$1,551,116 during the 2018 fiscal year. Total liabilities had an increase of \$11,065,991.
- The General Fund had \$26.4 million in revenue, which primarily consisted of the state program (SEEK), property, utilities, and motor vehicle taxes. There were \$26.6 million in General Fund expenditures.
- General Fund revenue increased \$2,980,511 from last fiscal year and General Fund expenses increased \$1,750,174.
- The financial statements reflect revenues of \$8,114,278 from the state on-behalf of District employees for retirement contributions, health insurance, administration fees, debt service and technology with a like amount of expenses recorded.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) district-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

District-wide financial statements

The district-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the District's assets and deferred outflows and liabilities and deferred inflows, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The district-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation and operation of non-instructional services. Fixed assets and related debt are also supported by taxes and intergovernmental revenues.

The district-wide financial statements can be found on pages 11-12 of this report.

Fund financial statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary funds and fiduciary funds. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare and teacher support. The only proprietary funds are our food service operations. All other activities of the district are included in the governmental funds.

The basic governmental fund financial statements can be found on pages 13-21 of this report.

Notes to the financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the district-wide and fund financial statements.

The notes to the financial statements can be found on pages 22-54 of this report.

DISTRICT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflows exceeded liabilities and deferred inflows by \$3.2 million as of June 30, 2018.

The largest portion of the District's net position reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment) less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

Net Position for the period ending June 30, 2018 and June 30, 2017

A comparison of June 30, 2018 and June 30, 2017 government wide net position is as follows:

	Governmental Activities		Business - Type Activities		Total Primary Government	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Current and Other Assets	\$ 2,437,169	\$ 2,458,061	\$ 842,039	\$ 924,200	\$ 3,279,208	\$ 3,382,261
Capital Assets	47,646,922	48,962,427	606,485	662,871	48,253,407	49,625,298
Deferred Outflows	<u>4,702,027</u>	<u>3,491,163</u>	<u>933,240</u>	<u>-</u>	<u>5,635,267</u>	<u>3,491,163</u>
Total Assets and Deferred Outflows	<u>54,786,118</u>	<u>54,911,651</u>	<u>2,381,764</u>	<u>1,587,071</u>	<u>57,167,882</u>	<u>56,498,722</u>
Current Liabilities	3,295,031	3,229,754	1,358	6,567	3,296,389	3,236,321
Non-Current Liabilities	46,712,641	38,494,211	2,787,493	-	49,500,134	38,494,211
Deferred Inflows	<u>904,896</u>	<u>337,200</u>	<u>228,768</u>	<u>-</u>	<u>1,133,664</u>	<u>337,200</u>
Total Liabilities and Deferred Inflows	<u>50,912,568</u>	<u>42,061,165</u>	<u>3,017,619</u>	<u>6,567</u>	<u>53,930,187</u>	<u>42,067,732</u>
Net Position						
Investment in capital assets (net of related debt)	17,828,253	17,191,150	606,485	662,871	18,434,728	17,854,021
Restricted	19,028	232,727	(1,242,340)	917,633	(1,223,312)	1,150,360
Unrestricted	<u>(13,973,731)</u>	<u>(4,573,391)</u>	<u>-</u>	<u>-</u>	<u>(13,973,731)</u>	<u>(4,573,391)</u>
Total Net Position	<u>\$ 3,873,550</u>	<u>\$ 12,850,486</u>	<u>\$ (635,855)</u>	<u>\$ 1,580,504</u>	<u>\$ 3,237,695</u>	<u>\$ 14,430,990</u>

The following table presents changes in net position for the fiscal years ended June 30, 2018 and June 30, 2017.

	Governmental		Business - Type		Total	
	Activities		Activities		Primary Government	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
REVENUES						
Program revenues						
Charges for services	\$ 18,886	\$ 0	\$ 154,456	\$ 174,809	\$ 173,342	\$ 174,809
Operating grants and contributions	3,859,787	3,917,384	2,453,379	2,611,811	6,313,166	6,529,195
Capital grants	19,989	31,140			19,989	31,140
General revenues						
Property taxes	5,438,517	4,864,383			5,438,517	4,864,383
Motor vehicle taxes	678,777	756,687			678,777	756,687
Utility Taxes	1,276,118	1,152,117			1,276,118	1,152,117
Other taxes	74,503	30,358			74,503	30,358
Investment earnings	50,980	26,149	14,741	6,070	65,721	32,219
State and formula grants	21,169,768	18,716,760			21,169,768	18,716,760
Miscellaneous	728,599	662,890			728,599	662,890
Total revenues	<u>33,315,924</u>	<u>30,157,868</u>	<u>2,622,576</u>	<u>2,792,690</u>	<u>35,938,500</u>	<u>32,950,558</u>
EXPENSES						
Program Activities						
Instructional	22,157,906	18,947,488			22,157,906	18,947,488
Student support	2,071,212	1,974,209			2,071,212	1,974,209
Instructional staff Support	868,276	973,728			868,276	973,728
District administrative support	847,316	887,237			847,316	887,237
School administrative support	1,640,030	1,456,255			1,640,030	1,456,255
Business support	958,308	956,947			958,308	956,947
Plant operations and maintenance	2,121,642	2,214,632			2,121,642	2,214,632
Student transportation	2,338,075	2,241,499			2,338,075	2,241,499
Community service activities	376,275	389,097			376,275	389,097
Other	3,446	21,118			3,446	21,118
Interest costs	997,808	1,069,115			997,808	1,069,115
Business-type Activities						
Food service			3,109,322	2,482,608	3,109,322	2,482,608
Total expenses	<u>34,380,294</u>	<u>31,131,325</u>	<u>3,109,322</u>	<u>2,482,608</u>	<u>37,489,616</u>	<u>33,613,933</u>
Increase (decrease) in net position	<u>\$ (1,064,370)</u>	<u>\$ (973,457)</u>	<u>\$ (486,746)</u>	<u>\$ 310,082</u>	<u>\$ (1,551,116)</u>	<u>\$ (663,375)</u>

On-behalf amounts are included in the above figures. On-behalf payments are payments the state makes on behalf of employees to the various agencies for health and life insurance, benefits, administration fees, technology and debt service. The total on-behalf payments for 2018 and 2017 were \$8,114,278 and \$5,818,851 respectively.

Total revenue for the District increased \$2,987,942 and expenses increased \$3,875,683.

Governmental Activities

For the governmental program expenses instructional expenses comprise 64% of total expenses, support services equate to 32%, and interest and other expenses make up the remaining 4% of the total.

The cost of program services and the charges for services and grants offsetting those services are shown on the Statement of Activities. The Statement of activities identifies the net cost of services supported by tax revenue and unrestricted intergovernmental revenues (State entitlements).

	Governmental Activities Total		Governmental Activities Net	
	Cost of Services		Cost of Services	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Instructional	\$ 22,157,906	\$ 18,947,488	\$ 19,154,312	\$ 16,084,960
Support Services	10,844,859	10,704,507	10,318,948	10,013,387
Other	379,721	410,215	30,553	46,479
Interest Costs	<u>997,808</u>	<u>1,069,115</u>	<u>977,819</u>	<u>1,037,975</u>
Total Expenses	<u>\$ 34,380,294</u>	<u>\$ 31,131,325</u>	<u>\$ 30,481,632</u>	<u>\$ 27,182,801</u>

Business-Type Activities

The business type activity at the District consists of Food Service. This program had total revenues of \$2,622,576 and expenses of \$3,109,322 for fiscal year 2018. These revenues were made up of \$154,456 charges for services, \$2,453,379 federal and state operating grants, and \$14,741 earnings on investments. These business-type activities receive no support from tax revenues, and, as such, the District will continue to monitor these activities and make the necessary adjustments to the operations of these activities.

The School District's Funds

The information relative to the School District's Funds starts on page 13. These funds use the modified accrual basis of accounting to account for each fund's revenues and expenses. The combined revenue for all governmental funds for 2018 was \$33,172,638 and expenditures were \$33,343,805.

General Fund Budgetary Highlights

The District's budget is based on accounting for certain transactions on the cash basis for receipts and expenditures and encumbrances and is prepared according to Kentucky law. The Kentucky Department of Education requires a zero-based budget with any remaining fund balance to be shown as a contingency expense in the budgeting process.

The most significant budgeted fund is the General Fund. The General Fund had budgeted revenues of \$18,107,210 with actual results being \$26,879,564. Budgeted expenditures were \$19,439,492 compared to actual expenditures of \$26,693,746. The most significant cause of the variance between budget and actual revenue were the state on-behalf payments in the amount of \$7,602,298. The most significant cause of the expenditures being over budget was the state on-behalf payments noted above. On-behalf payments were not budgeted.

Future Budgetary Implications

In Kentucky, the public schools fiscal year is July 1 – June 30; other programs, i.e. some federal programs operate on a different fiscal calendar, but are reflected in the District overall budget. By law, the budget must have a minimum 2% contingency. The District has adopted a budget for fiscal year 2018-2019 with an approximate 2% contingency.

Significant Board action that impacts the finances includes the Board's salary schedules which were increased by 2% for the 2016-2017 year and continues to increase personnel costs. This raise was not funded by any increase in SEEK funding. The State increased the SEEK base from \$3,981 to \$4,000 for FY 2019. The increased SEEK base and a slight increase in pupil count results in increased SEEK funding of approximately \$88,000 for FY 2019.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of the 2018 fiscal year, the District had invested \$48,253,407 in a broad range of capital assets, including equipment, buses, buildings, and land. This amount represents a net decrease of \$1,371,891. Depreciation expense for the year was \$1,815,833 and capital additions were \$443,942.

	Governmental		Business - Type		Total Primary Government	
	Activities (Net of Depreciation)		Activities (Net of Depreciation)		(Net of Depreciation)	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Land	\$ 1,033,505	\$1,033,505	\$ -	\$ -	\$ 1,033,505	\$ 1,033,505
Construction in Progress	245,748	-			245,748	-
Land Improvements	1,628,408	1,730,082	-	-	1,628,408	1,730,082
Buildings and Improvements	43,585,965	45,049,172	558,197	578,26	44,144,162	45,627,698
Technology	8,240	22,432	7	96	8,247	22,528
Vehicles	1,038,178	1,001,425	-	-	1,038,178	1,001,425
General Equipment	106,878	125,811	48,281	84,249	155,159	210,060
Total	<u>\$47,646,922</u>	<u>\$48,962,427</u>	<u>\$ 606,485</u>	<u>\$ 662,871</u>	<u>\$ 48,253,407</u>	<u>\$ 49,625,298</u>

	Governmental		Business - Type		Total	
	Activities		Activities		Primary Government	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Beginning Balance	\$ 48,962,427	\$ 50,289,600	\$ 662,871	\$ 722,227	\$ 49,625,298	\$ 51,011,827
Additions	443,942	370,795	0	0	443,942	370,795
Retirements	0	20	0	0	0	20
Depreciation	<u>(1,759,447)</u>	<u>(1,697,988)</u>	<u>(56,386)</u>	<u>(59,356)</u>	<u>(1,815,833)</u>	<u>(1,757,344)</u>
Ending Balance	<u>\$ 47,646,922</u>	<u>\$ 48,962,427</u>	<u>\$ 606,485</u>	<u>\$ 662,871</u>	<u>\$ 48,253,407</u>	<u>\$ 49,625,298</u>

Long-Term Debt

The District made scheduled bond principal payments in the amount of \$1,815,000. The District did not issue any new revenue bonds during the 2016-17 fiscal year. The District made scheduled capital lease payments of \$137,608, decreasing the District's capital lease obligations from \$286,277 to \$148,669.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers and other interested readers with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact the District's Superintendent or Finance Director at (270) 343-3191.

RUSSELL COUNTY SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2018

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
ASSETS:			
Cash & Cash Equivalents - Note C	471,984	820,042	1,292,026
Accounts Receivable:			
Taxes - Current	167,094		167,094
Taxes - Delinquent	8,766		8,766
Accounts	201,243		201,243
Intergovernmental - State	7,458		7,458
Intergovernmental - Federal	1,580,624		1,580,624
Inventories for Consumption		21,997	21,997
Total Current Assets	2,437,169	842,039	3,279,208
Noncurrent Assets - Note G			
Land	1,033,505		1,033,505
Construction In Progress	245,748		245,748
Buildings & Improvements	65,986,074		65,986,074
Furniture & Equipment	7,127,554	1,928,460	9,056,014
Less: Accumulated Depreciation	(26,745,959)	(1,321,975)	(28,067,934)
Total Noncurrent Assets	47,646,922	606,485	48,253,407
TOTAL ASSETS	50,084,091	1,448,524	51,532,615
Deferred Outflows Related to Other Post Employment Benefits	1,122,083	204,458	1,326,541
Deferred Outflows Related to Pensions	2,713,599	728,782	3,442,381
Deferred Outflows Related to Bond Refundings	866,345		866,345
TOTAL DEFERRED OUTFLOWS	4,702,027	933,240	5,635,267
TOTAL ASSETS AND DEFERRED OUTFLOWS	54,786,118	2,381,764	57,167,882
LIABILITIES:			
Current Liabilities:			
Accounts Payable	91,262	1,358	92,620
Accrued Salaries & Sick Leave - Note A	205,914		205,914
Advances from Grantors	808,778		808,778
Bond Obligations - Note E	1,860,000		1,860,000
Capital Lease Obligation - Note F	117,070		117,070
Accrued Interest Payable	212,007		212,007
Total Current Liabilities	3,295,031	1,358	3,296,389
Noncurrent Liabilities:			
Bond Obligations - Note E	27,810,000		27,810,000
Capital Lease Obligation - Note F	31,599		31,599
Unamortized Bond Premiums	43,249		43,249
Net Pension Liability	7,724,140	2,074,063	9,798,203
Net Other Post Employment Benefits Liability	10,288,803	713,430	11,002,233
Deferred Gain on QZAB	53,750		53,750
Accrued Sick Leave - Note A	761,100		761,100
Total Noncurrent Liabilities	46,712,641	2,787,493	49,500,134
TOTAL LIABILITIES	50,007,672	2,788,851	52,796,523
Deferred Inflows Related to Other Post Employment Benefits	192,778	37,353	230,131
Deferred Inflows Related to Pensions	712,118	191,415	903,533
TOTAL DEFERRED INFLOWS	904,896	228,768	1,133,664
TOTAL LIABILITIES AND DEFERRED INFLOWS	50,912,568	3,017,619	53,930,187
NET POSITION:			
Net Investment in Capital Assets	17,828,253	606,485	18,434,738
Restricted for:			
Capital Projects	16,952		16,952
Other	2,076		2,076
Food Service		(1,242,340)	(1,242,340)
Unrestricted	(13,973,731)		(13,973,731)
TOTAL NET POSITION	3,873,550	(635,855)	3,237,695
TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION	54,786,118	2,381,764	57,167,882

See independent auditor's report and accompanying notes to financial statements.

RUSSELL COUNTY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

FUNCTION/PROGRAMS	EXPENSES	PROGRAM REVENUES			NET(EXPENSE) REVENUE AND CHANGES IN NET POSITION		
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
GOVERNMENTAL ACTIVITIES:							
Instructional	22,157,906		3,003,594		(19,154,312)		(19,154,312)
Support Services:							
Student Support Services	2,071,212		133,852		(1,937,360)		(1,937,360)
Staff Support Services	868,276		265,641		(602,635)		(602,635)
District Administration	847,316				(847,316)		(847,316)
School Administration	1,640,030				(1,640,030)		(1,640,030)
Business Support Services	958,308		26,429		(931,879)		(931,879)
Plant Operation & Maintenance	2,121,642		45,870		(2,075,772)		(2,075,772)
Student Transportation	2,338,075	6,859	47,260		(2,283,956)		(2,283,956)
Community Service Operations	376,275	12,027	337,141		(27,107)		(27,107)
Facilities Acquisition & Construction	3,446				(3,446)		(3,446)
Interest on Long-Term Debt	997,808			19,989	(977,819)		(977,819)
TOTAL GOVERNMENTAL ACTIVITIES	34,380,294	18,886	3,859,787	19,989	(30,481,632)		(30,481,632)
BUSINESS-TYPE ACTIVITIES:							
Food Service	2,984,557	154,456	2,453,379			(376,722)	(376,722)
TOTAL BUSINESS-TYPE ACTIVITIES	2,984,557	154,456	2,453,379	0	0	(376,722)	(376,722)
TOTAL SCHOOL DISTRICT	37,364,851	173,342	6,313,166	19,989	(30,481,632)	(376,722)	(30,858,354)
GENERAL REVENUES:							
Taxes:							
Property					5,438,517		5,438,517
Motor Vehicle					678,777		678,777
Utility					1,276,118		1,276,118
Other					74,503		74,503
State Aid - Formula Grants					21,169,768		21,169,768
Investment Earnings					50,980	14,741	65,721
Miscellaneous					585,313		585,313
Funds Transfer (Expense)					124,765	(124,765)	0
Gain(Loss) Sale of Assets					18,521		18,521
TOTAL GENERAL & TRANSFERS					29,417,262	(110,024)	29,307,238
CHANGE IN NET POSITION					(1,064,370)	(486,746)	(1,551,116)
NET POSITION - BEGINNING OF YEAR AS RESTATED NOTE S					4,937,920	(149,109)	4,788,811
NET POSITION - ENDING					3,873,550	(635,855)	3,237,695

See independent auditor's report and accompanying notes to financial statements.

RUSSELL COUNTY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2018

	GENERAL FUND	SPECIAL REVENUE	DEBT SERVICE FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS:					
Cash & Cash Equivalents	452,956			19,028	471,984
Accounts Receivable:					
Taxes - Current	167,094				167,094
Taxes - Delinquent	8,766				8,766
Accounts	201,243				201,243
Due from Other Funds	776,796				776,796
Intergovernmental - State		7,458			7,458
Intergovernmental - Federal		1,580,624			1,580,624
TOTAL ASSETS	<u>1,606,855</u>	<u>1,588,082</u>	<u>0</u>	<u>19,028</u>	<u>3,213,965</u>
LIABILITIES AND FUND BALANCE:					
Liabilities:					
Accounts Payable	88,754	2,508			91,262
Due to Other Funds		776,796			776,796
Advances From Grantors		808,778			808,778
Total Liabilities	<u>88,754</u>	<u>1,588,082</u>	<u>0</u>	<u>0</u>	<u>1,676,836</u>
Fund Balance:					
Restricted for:					
Capital Projects				16,952	16,952
Other				2,076	2,076
Assigned for:					
Purchase Obligations	22,783				22,783
Unassigned Fund Balance	1,495,318				1,495,318
Total Fund Balance	<u>1,518,101</u>	<u>0</u>	<u>0</u>	<u>19,028</u>	<u>1,537,129</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>1,606,855</u>	<u>1,588,082</u>	<u>0</u>	<u>19,028</u>	<u>3,213,965</u>

See independent auditor's report and accompanying notes to financial statements.

RUSSELL COUNTY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
FOR THE YEAR ENDED JUNE 30, 2018

Amounts reported for governmental activities in the statement of net position are different because:

TOTAL GOVERNMENTAL FUND BALANCE		1,537,129
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.		
Cost of Capital Assets	74,392,881	
Accumulated Depreciation	<u>(26,745,959)</u>	47,646,922
Deferred Outflows Related to Bond Refundings are not current assets and therefore are not reported as assets in governmental funds.		866,345
Deferred Outflows Related to Pensions are not current assets and therefore are not reported as assets in governmental funds.		2,713,599
Deferred Outflows Related to Other Post Employment Benefits are not current assets and therefore are not reported as assets in governmental funds.		1,122,083
Long-term liabilities (including bonds payable) are not due and payable in the current period and therefore are not reported as liabilities in the funds.		
Long-term liabilities at year end consist of:		
Bonds Payable	(29,670,000)	
Capital Lease Obligation	(148,669)	
Accrued Interest on Bonds	(212,007)	
Unamortized Bond Premiums	(43,249)	
Net Pension Liability	(7,724,140)	
Net Other Post Employment Benefits Liability	(10,288,803)	
Deferred Gain on QZAB	(53,750)	
Accrued Sick Leave	<u>(967,014)</u>	(49,107,632)
Deferred Inflows Related to Other Post Employment Benefits are not current liabilities and therefore are not reported as liabilities in governmental funds.		(192,778)
Deferred Inflows Related to Pensions are not current liabilities and therefore are not reported as liabilities in governmental funds.		<u>(712,118)</u>
TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES		<u><u>3,873,550</u></u>

See independent auditor's report and accompanying notes to financial statements.

RUSSELL COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2018

	GENERAL	SPECIAL REVENUE	DEBT SERVICE FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES:					
Taxes:					
Property	3,482,729			1,955,788	5,438,517
Motor Vehicle	678,777				678,777
Utility	1,276,118				1,276,118
Other	74,503				74,503
Earnings on Investments	47,008	526		3,446	50,980
Intergovernmental - State	19,940,679	1,189,899	250,188	998,890	22,379,656
Intergovernmental - Federal	429,509	2,240,379			2,669,888
Other Sources	433,098	113,233		57,868	604,199
TOTAL REVENUES	26,362,421	3,544,037	250,188	3,015,992	33,172,638
EXPENDITURES:					
Instructional	16,631,597	2,815,206		14,182	19,460,985
Support Services:					
Student Support Services	1,826,272	125,457			1,951,729
Staff Support Services	577,270	248,980		1,009	827,259
District Administration	833,467				833,467
School Administration	1,534,926				1,534,926
Business Support Services	893,190	24,771			917,961
Plant Operation & Maintenance	2,004,053	42,993			2,047,046
Student Transportation	2,235,123	44,296			2,279,419
Community Service Operations	56,476	315,999			372,475
Facilities Acquisition & Construction				249,194	249,194
Debt Service:					
Principal	35,028		1,917,580		1,952,608
Interest	3,307		913,429		916,736
TOTAL EXPENDITURES	26,630,709	3,617,702	2,831,009	264,385	33,343,805
EXCESS(DEFICIT) REVENUES OVER EXPENDITURES	(268,288)	(73,665)	(2,580,821)	2,751,607	(171,167)
OTHER FINANCING SOURCES(USES):					
Proceeds from Sale of Assets	18,521				18,521
Operating Transfers In - Note O	498,622	63,037	2,580,821		3,142,480
Operating Transfers Out - Note O	(63,037)			(2,954,678)	(3,017,715)
TOTAL OTHER FINANCING SOURCES	454,106	63,037	2,580,821	(2,954,678)	143,286
NET CHANGE IN FUND BALANCES	185,818	(10,628)	0	(203,071)	(27,881)
FUND BALANCES - BEGINNING	1,332,283	10,628	0	222,099	1,565,010
FUND BALANCES - ENDING	1,518,101	0	0	19,028	1,537,129

See independent auditor's report and accompanying notes to financial statements.

RUSSELL COUNTY SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

Amounts reported for governmental activities in the statement of net position are different because:

NET CHANGES - GOVERNMENTAL FUNDS (27,881)

Governmental funds report capital outlays as expenditures because they use current financial resources. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital exceeds depreciation expense for the year.

Depreciation Expense	(1,759,447)	
Capital Outlays	<u>443,942</u>	
		(1,315,505)

Bond proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets.

Principal Paid		1,952,608
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Generally, expenditures recognized in this fund financial statement are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred.

Amortization-Deferred Outflow on Bond Refundings	(119,469)	
Amortization - Bond Premiums	4,718	
District Pension Contributions	463,795	
Cost of Benefits Earned Net of Employee Contributions	(1,675,856)	
District Other Post Employment Benefits Contributions	545,068	
Cost of Benefits Earned Net of Employee Contributions - OPEB	(781,393)	
Accrued Interest Payable	20,241	
Amortization - Deferred Gain on QZAB	13,438	
Accrued Sick Leave	<u>(144,134)</u>	
		<u>(1,673,592)</u>

CHANGES - NET POSITION GOVERNMENTAL FUNDS		<u><u>(1,064,370)</u></u>
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See independent auditor's report and accompanying notes to financial statements.

RUSSELL COUNTY SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2018

	<u>ENTERPRISE FUND</u>
	<u>FOOD SERVICE</u>
ASSETS:	
Current Assets:	
Cash & Cash Equivalents	820,042
Inventories for Consumption	21,997
Total Current Assets	<u>842,039</u>
Noncurrent Assets:	
Furniture & Equipment	1,928,460
Less: Accumulated Depreciation	<u>(1,321,975)</u>
Total Noncurrent Assets	<u>606,485</u>
TOTAL ASSETS	<u><u>1,448,524</u></u>
Deferred Outflows Related to Other Post Employment Benefits	204,458
Deferred Outflows Related to Pensions	<u>728,782</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS	<u><u>2,381,764</u></u>
LIABILITIES:	
Current Liabilities:	
Account Payable	1,358
Total Current Liabilities	<u>1,358</u>
Noncurrent Liabilities:	
Net Other Post Employment Benefits Liability	713,430
Net Pension Liability	<u>2,074,063</u>
Total Noncurrent Liabilities	<u>2,787,493</u>
TOTAL LIABILITIES	<u><u>2,788,851</u></u>
Deferred Inflows Related to Other Post Employment Benefits	37,353
Deferred Inflows Related to Pensions	<u>191,415</u>
TOTAL LIABILITIES AND DEFERRED INFLOWS	<u><u>3,017,619</u></u>
Net Position:	
Net Investment in Capital Assets	606,485
Restricted	<u>(1,242,340)</u>
Total Net Position	<u><u>(635,855)</u></u>
TOTAL LIABILITIES AND NET POSITION	<u><u>2,381,764</u></u>

See independent auditor's report and accompanying notes to financial statements.

RUSSELL COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2018

	ENTERPRISE FUND
	FOOD SERVICE
OPERATING REVENUES:	
Lunchroom Sales	136,622
Other Operating Revenues	17,834
TOTAL OPERATING REVENUES	<u>154,456</u>
OPERATING EXPENSES:	
Salaries & Benefits	1,618,109
Contract Services	67,029
Materials & Supplies	1,243,033
Depreciation - Note G	56,386
TOTAL OPERATING EXPENSES	<u>2,984,557</u>
OPERATING INCOME(LOSS)	(2,830,101)
NONOPERATING REVENUES(EXPENSES):	
Federal Grants	2,135,462
State Grants	225,250
Donated Commodities	92,667
Interest Income	14,741
Transfer Out to General Fund	(124,765)
TOTAL NONOPERATING REVENUE	<u>2,343,355</u>
INCOME(LOSS) BEFORE CAPITAL CONTRIBUTIONS	(486,746)
CAPITAL CONTRIBUTIONS	<u>0</u>
CHANGE IN NET POSITION	(486,746)
TOTAL NET POSITION - BEGINNING AS RESTATED NOTE S	<u>(149,109)</u>
TOTAL NET POSITION - ENDING	<u><u>(635,855)</u></u>

See independent auditor's report and accompanying notes to financial statements.

RUSSELL COUNTY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2018

	<u>FOOD SERVICE</u>
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash Received from:	
Lunchroom Sales	136,622
Other Activities	17,834
Cash Paid to/for:	
Employees	(1,058,231)
Supplies	(1,152,865)
Other Activities	<u>(67,029)</u>
Net Cash Provided (Used) by Operating Activities	(2,123,669)
CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES:	
Transfer out to General Fund	(124,765)
Federal Grants	2,154,200
State Grants	<u>18,780</u>
Net Cash Provided by Non-Capital and Related Financing Activities	2,048,215
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	0
CASH FLOWS FROM INVESTING ACTIVITIES	
Receipt of Interest Income	<u>14,741</u>
Net Decrease in Cash and Cash Equivalents	(60,713)
Balances, Beginning of Year	<u>880,755</u>
Balances, End of Year	<u><u>820,042</u></u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:	
Operating Loss	(2,830,101)
Adjustments to Reconcile Operating Loss to Net Cash Provided (Used) by Operating Activities	
Depreciation	56,386
State On-Behalf Payments	206,470
Donated Commodities	92,667
Change in Assets, Deferred Outflows, Liabilities and Deferred Inflows:	
Deferred Outflows	(362,521)
Deferred Inflows	157,416
Net Pension Liability	404,676
Net Other Post Employment Benefits Liability	153,837
Inventory	2,710
Accounts Payable	<u>(5,209)</u>
Net Cash Provided (Used) by Operating Activities	<u><u>(2,123,669)</u></u>
Schedule of Non-Cash Transactions:	
Donated Commodities	92,667
State On-Behalf Payments	206,470

See independent auditor's report and accompanying notes to financial statements.

RUSSELL COUNTY SCHOOL DISTRICT
 STATEMENT OF FIDUCIARY NET POSITION
 FIDUCIARY FUNDS
 JUNE 30, 2018

	<u>AGENCY FUND</u>	<u>SCHOLARSHIP FUND</u>
ASSETS:		
Cash and Cash Equivalents	<u>208,733</u>	<u>2,635</u>
TOTAL ASSETS	<u>208,733</u>	<u>2,635</u>
LIABILITIES:		
Due to Student Groups	<u>208,733</u>	
TOTAL LIABILITIES	<u>208,733</u>	<u>0</u>
NET POSITION HELD IN TRUST	<u><u>0</u></u>	<u><u>2,635</u></u>

See independent auditor's report and accompanying notes to financial statements.

RUSSELL COUNTY SCHOOL DISTRICT
 STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
 FIDUCIARY FUNDS
 FOR THE YEAR ENDED JUNE 30, 2018

	<u>PRIVATE PURPOSE TRUST FUNDS</u>
ADDITIONS:	
Scholarship Funds Contributed	2,550
DEDUCTIONS:	
Benefits Paid	<u>2,000</u>
Changes in Net Position	550
NET POSITION HELD IN TRUST - BEGINNING OF YEAR	<u>2,085</u>
NET POSITION HELD IN TRUST - END OF YEAR	<u><u>2,635</u></u>

See independent auditor's report and accompanying notes to financial statements.

RUSSELL COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Russell County Board of Education (“Board”), a five-member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of Russell County Board of Education (“District”). The District receives funding from local, state, and federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental “reporting entity” as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards. Board members are elected by the public and have decision-making authority, the power to designate management, the responsibility to develop policies which may influence operations, and primary accountability for fiscal matters.

The District, for financial purposes, includes all of the funds and account groups relevant to the operation of the Russell County Board of Education. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself such as Band Boosters, Parent-Teacher Associations, etc.

The financial statements of the District include those of separately administered organizations that are controlled by or dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding, and appointment of the respective governing board.

Based on the foregoing criteria, the financial statements of the following organizations are included in the accompanying financial statements:

Russell County Board of Education Finance Corporation – In a prior year, the Board of Education resolved to authorize the establishment of the Russell County School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) (the “Corporation”) as an agency for the District for financing the costs of school building facilities. The members of the Board also comprise the Corporation’s Board of Directors.

Basis of Presentation

Government-Wide Financial Statements – The statement of net position and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements – Fund financial statements report detailed information about the District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures, and changes in fund balances, which reports on the changes in net total assets. Proprietary funds and fiduciary funds are reported using the economic resources measurement focus. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

The District has the following funds:

I. Governmental Fund Types

- A. The General Fund is the main operating fund of the Board. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. This is a major fund of the District.
- B. The Special Revenue (Grant) Funds account for proceeds of specific revenue sources (other than expendable trust or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of the specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally funded grant programs are identified in the Schedule of Expenditures of Federal Awards and related notes. This is a major fund of the District.
- C. Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Fund).
 - 1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay funds and is restricted for use in financing projects identified in the District's facility plan.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. The Facility Support Program of Kentucky (FSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan.
 3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction.
- D. Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost; and for the payment of interest on generally obligation notes payable, as required by Kentucky law. This is a major fund of the District.

II. Proprietary Fund Types (Enterprise Fund)

The Food Service Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contribution of commodities from the USDA. The Food Service Fund is a major fund.

The District applies all GASB pronouncements to proprietary funds as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

III. Fiduciary Fund Type (Agency Funds)

- A. The Agency Fund accounts for activities of student groups and other types of activities requiring clearing accounts. The funds are accounted for in accordance with the Uniform Program of Accounting for School Activity Funds.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

Revenues – Exchange and Nonexchange Transactions – Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within 60 days of the fiscal year-end.

Proprietary Fund operating revenues are defined as revenues received from the direct purchases of products and services (i.e. food service). Non-operating revenues are not related to direct purchases of products; for the District, these revenues are typically investment income and state and federal grant revenues.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resource are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before it can be recognized.

Deferred Revenue – Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the statement of revenues, expenses, and changes in net position as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as deferred revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of costs, such as depreciation, are not recognized in governmental funds.

Property Taxes

Property Tax Revenues – Property taxes are levied each September on the assessed value listed as of the prior January 1, for all real and personal property in the county. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending 30 days after the tax bill mailing. Property taxes collected are recorded as revenues in the fiscal year for which they were levied. All taxes collected are initially deposited into the General fund and then transferred to the appropriate fund.

The property tax rates assessed for the year ended June 30, 2018, to finance the General Fund operations were \$0.522 per \$100 valuation for real property, \$0.522 per \$100 valuation for business personal property, and \$0.522 per \$100 valuation for motor vehicles.

The District levies a utility gross receipts license tax in the amount of 3% of the gross receipts derived from the furnishings, within the county, of telephonic and telegraphic communications services, cablevision services, electric power, water, and natural, artificial, and mixed gases.

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net position and in the respective funds.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

Description	Governmental Activities Estimated Lives
Buildings and improvements	25-50 years
Land improvements	20 years
Technology equipment	5 years
Vehicles	5-10 years
Audio-visual equipment	15 years
Food service equipment	10-12 years
Furniture and fixtures	7 years
Rolling stock	15 years
Other	10 years

Interfund Balances

On fund financial statements, receivables and payable resulting from short-term interfund loans are classified as “interfund receivables/payables.” These amounts are eliminated in the governmental and business-type activities columns of the statements of net position except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

Accumulated Unpaid Sick Leave Benefits

Upon retirement from the school system, an employee will have received from the District an amount equal to 30% of the value of accumulated sick leave.

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District’s past experience of making termination payments.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements, the current portion of unpaid accrued sick leave is the amount expected to be paid using expendable available resources. These amounts are recorded in the amount “accumulated sick leave payable” in the general fund. The noncurrent portion of the liability is reported as a reserve of fund balance.

Budgetary Process

Budgetary Basis of Accounting: The District’s budgetary process accounts for certain transactions on a basis other than Generally Accepted Accounting Principles (GAAP). The major differences between the budgetary basis and the GAAP basis are:

Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Once the budget is approved, it can be amended. Amendments are presented to the Board at their regular meetings. Such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year-end as dictated by law.

Each budget is prepared and controlled by the budget coordinator at the revenue and expenditure function/object level. All budget appropriations lapse at year-end.

Cash and Cash Equivalents

The District considers demand deposits, money market funds, and other investments with an original maturity of 90 days or less, to be cash equivalents.

Inventories

On government-wide financial statements, inventories are stated at cost and are expensed when used.

On fund financial statements inventories are stated at cost. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased.

The food service fund uses the specific identification method.

Investments

The private purpose trust funds record investments at their quoted market prices. All realized gains and losses and changes in fair value are recorded in the Statement of Changes in Fiduciary Net Position.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities, and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the noncurrent portion of capital leases, accumulated sick leave, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Fund Balance

In accordance with Government Accounting Standards Board 54, Fund Balance Reporting and Governmental Fund Type Definitions, the District classifies governmental fund balances as follows:

Non-spendable – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.

Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.

Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund Balance may be assigned by the Superintendent.

Unassigned – includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

The District uses *restricted/committed* amounts to be spent first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as grant agreements requiring dollar for dollar spending. Additionally, the District would first use *committed*, then *assigned*, and lastly *unassigned* amounts for unrestricted fund balance when expenditures are made.

The District does not have a formal minimum fund balance policy.

Major Special Revenue Fund

Revenue Source

Special Revenue

State, Local and Federal Grants

Net Position

Net Position represents the difference between assets and liabilities. Net investment in capital assets, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the School District, those revenues are primarily charges for meals provided by the various schools.

Contributions of Capital

Contributions of capital in proprietary fund financial statements arise from outside contributions of fixed assets, or from grants or outside contributions of resources restricted to capital acquisition and construction.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

Pensions

Teachers' Retirement System - For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Teachers' Retirement System of the State of Kentucky (TRS) and additions to/deductions from TRS's fiduciary net position have been determined on the same basis as they are reported by TRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

County Employees Retirement System - For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the County Employees Retirement System of the State of Kentucky (CERS) and additions to/deductions from CERS's fiduciary net position have been determined on the same basis as they are reported by CERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Since certain expense items are amortized over the closed periods each year, the deferred portions of these items must be tracked annually. If the amounts serve to reduce pension expense the amounts are labeled deferred inflows. If amounts will increase pension expense the amounts are labeled deferred outflows. The amortization of these amounts is accomplished on a level dollar basis, with no interest included in the deferred amounts. Experience gains/losses and the impact of changes in actuarial assumptions, if any, are amortized over the average expected remaining service life of the active and inactive plan members at the beginning of the fiscal year. Investment gains and losses are amortized over a fixed five-year period.

Postemployment Benefits Other Than Pensions

Teachers' Retirement System – For purposes of measuring the liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Teachers' Retirement System of the State of Kentucky (TRS) and additions to/deductions from TRS's fiduciary net position have been determined on the same basis as they are reported by TRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

County Employees Retirement System - For purposes of measuring the liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the County Employees Retirement System of the State of Kentucky (CERS) and

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

additions to/deductions from CERS's fiduciary net position have been determined on the same basis as they are reported by CERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

Since certain expense items are amortized over the closed periods each year, the deferred portions of these items must be tracked annually. If the amounts serve to reduce pension expense the amounts are labeled deferred inflows. If amounts will increase pension expense the amounts are labeled deferred outflows. The amortization of these amounts is accomplished on a level dollar basis, with no interest included in the deferred amounts. Experience gains/losses and the impact of changes in actuarial assumptions, if any, are amortized over the average expected remaining service life of the active and inactive plan members at the beginning of the fiscal year. Investment gains and losses are amortized over a fixed five-year period.

Changes in Accounting Principle

Effective July 1, 2017, the District was required to adopt Governmental Accounting Standards Board (GASB) Statement no. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions" (GASB 75). GASB 75 replaced the requirements of GASB 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions", as amended, and GASB 57, "OPEB Measurement by Agent Employers and Agent Multi-Employer Plans". GASB 75 requires governments providing other postemployment benefits to recognize their long-term obligation for other postemployment benefits as a liability to more comprehensively and comparably measure the annual costs of other postemployment benefits. Cost-sharing governmental employers, such as the District, are required to report a net other postemployment benefit liability, other postemployment benefit expense and other postemployment benefit-related assets and liabilities based on their proportionate share of the collective amounts for all governments in the plan.

GASB 75 required retrospective application. Since the District only presents one year of financial information, the beginning net pension was adjusted to reflect the retrospective application. See Note S for the impact of the adoption of this standard on beginning net position.

NOTE B – ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the District's management to make estimates and assumptions that affect reported amounts of assets, liabilities, fund balances, and disclosure of contingent assets and liabilities at the date of the general purpose financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE C – CASH AND CASH EQUIVALENTS

Custodial Credit Risk - Deposits. Custodial Credit is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's policy is to have all deposits secured by pledged securities.

At year-end, the carrying amount of the District's total cash and cash equivalents was \$1,503,394. Of the total cash balance, \$250,000 was covered by Federal Depository Insurance and \$1,253,394 was covered by collateral agreements and collateral held by the pledging banks' trust departments in the District's name. Cash equivalents are funds temporarily invested in securities with maturity of 90 days or less.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Cash and cash equivalents at June 30, 2018, consisted of the following:

	Bank Balance	Book Balance
First National Bank	<u>2,977,471</u>	<u>1,503,394</u>
Breakdown per financial statements:		
Governmental Funds		471,984
Proprietary Funds		<u>820,042</u>
Subtotal		1,292,026
Fiduciary Funds		2,635
Agency Funds		<u>208,733</u>
Total Cash and Cash Equivalents All Funds		<u>1,503,394</u>

NOTE D – INVESTMENTS

The District held no investments on June 30, 2018.

NOTE E – LONG TERM OBLIGATIONS

The amount shown in the accompanying financial statements as bond obligations represents the District's future obligations to make payments relating to the bonds issued by the Russell County School District Finance Corporation in the original amount aggregating \$35,530,000.

The original amount of each issue and interest rates are summarized below:

2006R	4,780,000	3.35% - 4.00%
2011	5,940,000	1.00% - 3.50%
2013 Refunding	4,840,000	1.00% - 2.05%
2014	10,875,000	2.00% - 4.00%
2015	1,640,000	2.50% - 3.50%
2015 Refunding	2,060,000	2.00% - 2.50%
2016 Refunding	5,395,000	2.00% - 2.25%

The District, through the General Fund (including utility taxes and the Support Education Excellence (SEEK) Capital Outlay Fund) is obligated to make payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Russell County School District Finance Corporation to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

The District has "participation agreements" with the Kentucky School Facility Construction Commission. The Commission was created by the Kentucky Legislature for the purpose of assisting local school districts in meeting school construction needs. The table sets forth the amount to be paid by the Board and the Commission for each year until maturity of all bonds issued. The Kentucky School Construction Commission's participation is limited to the biennial budget period of the Commonwealth of Kentucky with the right reserved by the Kentucky School Construction Commission to terminate the commitment to pay the agreed participation every two years. The obligation of the Kentucky School Construction Commission to make the agreed payments automatically renews each two years for a period of two years unless the Kentucky School Construction Commission gives notice of its intention not to participate not less than sixty days prior to the end of its biennium.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the maturity, the minimum obligations of the District, including amounts to be paid by the Commission at June 30, 2018, for debt service (principal and interest) are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Participation</u>	<u>District's Portion</u>
2018-19	1,860,000	859,934	142,647	2,577,287
2019-20	1,910,000	809,849	143,677	2,576,172
2020-21	1,890,000	749,749	67,353	2,572,396
2021-22	1,945,000	703,498	67,353	2,581,145
2022-23	1,985,000	655,676	67,353	2,573,323
2023-24	2,030,000	605,437	58,963	2,576,474
2024-25	2,060,000	552,907	37,113	2,575,794
2025-26	2,120,000	493,912	33,543	2,580,369
2026-27	2,130,000	446,625	26,545	2,550,080
2027-28	2,170,000	392,944	0	2,562,944
2028-29	1,430,000	342,425	0	1,772,425
2029-30	1,480,000	296,463	0	1,776,463
2030-31	1,525,000	247,025	0	1,772,025
2031-32	1,580,000	194,400	0	1,774,400
2032-33	1,635,000	139,100	0	1,774,100
2033-34	1,700,000	74,700	0	1,774,700
2034-35	220,000	7,700	0	227,700
	<u>29,670,000</u>	<u>7,572,344</u>	<u>644,547</u>	<u>36,597,797</u>

Long-term liability activity for the year ended June 30, 2018, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government					
Governmental Activities:					
Revenue Bonds Payable	31,485,000	0	1,815,000	29,670,000	1,860,000
Capital Lease Obligations	286,277	0	137,608	148,669	117,070
Net Pension Liability	6,219,967	1,504,173	0	7,724,140	0
Net OPEB Liability	0	10,288,803	0	10,288,803	0
Accrued Sick Leave	<u>822,880</u>	<u>233,359</u>	<u>89,225</u>	<u>967,014</u>	<u>205,914</u>
Total Governmental Activities:	38,814,124	12,026,335	2,041,833	41,161,626	2,182,984
Proprietary Activities:					
Net Pension Liability	1,669,387	404,676	0	2,074,063	0
Net OPEB Liability	<u>0</u>	<u>713,429</u>	<u>0</u>	<u>713,429</u>	<u>0</u>
Long-Term Liabilities	<u>40,483,511</u>	<u>13,144,440</u>	<u>2,041,833</u>	<u>51,586,118</u>	<u>2,182,984</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE F - CAPITAL LEASE PAYABLE

The District is the lessee of buses, a garbage truck, and school improvements under capital leases expiring in various years through 2020. The assets and liabilities under capital leases are recorded at the present value of the minimum lease payments or the fair value of the asset. The assets are amortized over their estimated productive lives. Amortization of assets under capital leases is included in depreciation expense for fiscal year 2018.

The following is a summary of property held under capital leases:

<u>Classes of Property</u>	<u>Book Value as of June 30, 2018</u>
Gross amount of assets	1,671,830
Accumulated Amortization	(1,254,586)
	<u>417,244</u>

The following is a schedule by years of the future principal payments under capital leases as of June 30, 2018:

<u>Year Ending June 30,</u>	<u>Capital Lease Payable</u>
2019	120,645
2020	<u>32,736</u>
Net minimum lease payments	153,381
Amount representing interest	<u>(4,712)</u>
Present value of net minimum lease payments	<u>148,669</u>

Interest rates on capitalized leases vary from 1.00% to 3.875%. The capital leases provide for the buses and technology equipment to revert to the District at the end of the respective lease with no further payment for purchase.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE G - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2018, was as follows:

	BEGINNING BALANCE	ADDITIONS	RETIREMENTS	ENDING BALANCE
GOVERNMENTAL ACTIVITIES:				
Non-Depreciable Assets:				
Land	1,033,505			1,033,505
Construction In Progress		245,748		245,748
Depreciable Assets:				
Land Improvements	3,107,012			3,107,012
Buildings & Building Improvements	62,879,062			62,879,062
Technology Equipment	1,395,785			1,395,785
Vehicles	5,115,742	198,194	440,226	4,873,710
General Equipment	858,059			858,059
TOTAL AT HISTORICAL COST	74,389,165	443,942	440,226	74,392,881
LESS ACCUMULATED DEPRECIATION FOR:				
Land Improvements	1,376,930	101,674		1,478,604
Buildings & Building Improvements	17,829,890	1,463,207		19,293,097
Technology Equipment	1,373,354	14,191		1,387,545
Vehicles	4,114,316	161,442	440,226	3,835,532
General Equipment	732,248	18,933		751,181
TOTAL ACCUMULATED DEPRECIATION	25,426,738	1,759,447	440,226	26,745,959
GOVERNMENTAL ACTIVITIES CAPITAL NET	48,962,427	(1,315,505)	0	47,646,922
PROPRIETARY ACTIVITIES:				
Depreciable Assets:				
Buildings and Improvements	1,026,343			1,026,343
Technology Equipment	28,409			28,409
General Equipment	873,708			873,708
TOTALS AT HISTORICAL COST	1,928,460	0	0	1,928,460
LESS ACCUMULATED DEPRECIATION FOR:				
Buildings and Improvements	447,817	20,329		468,146
Technology Equipment	28,313	89		28,402
General Equipment	789,459	35,968		825,427
TOTAL ACCUMULATED DEPRECIATION	1,265,589	56,386	0	1,321,975
PROPRIETARY ACTIVITIES CAPITAL NET	662,871	(56,386)	0	606,485
DEPRECIATION EXPENSE CHARGED TO GOVERNMENTAL FUNCTIONS AS FOLLOWS:				
Instructional				1,577,362
Plant Operation & Maintenance				18,920
Student Transportation				163,165
TOTAL				1,759,447

NOTE H – RETIREMENT PLANS

The District's employees are provided with two pension plans, based on each position's college degree requirement. The County Employees Retirement System covers employees whose position does not require a college degree or teaching certification. The Teachers Retirement System covers positions requiring teaching certification or otherwise requiring a college degree.

General information about the County Employees Retirement System Non-Hazardous ("CERS")

Plan description—Employees whose positions do not require a degree beyond a high school diploma are covered by the CERS, a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement System, an agency of the Commonwealth of Kentucky. Under the provisions of the Kentucky Revised Statute ("KRS") Section 61.645, the Board of Trustees of the Kentucky Retirement System administers CERS and has the authority to establish and amend benefit provisions. The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for CERS. That report may be obtained from <http://kyret.ky.gov/>.

Benefits provided—CERS provides retirement, health insurance, death and disability benefits to Plan employees and beneficiaries. Employees are vested in the plan after five years' service. For retirement purposes, employees are grouped into three tiers, based on hire date:

Tier 1	Participation date	Before September 1, 2008
	Unreduced retirement	27 years service or 65 years old
	Reduced retirement	At least 5 years service and 55 years old At least 25 years service and any age
Tier 2	Participation date	September 1, 2008 - December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old OR age 57+ and sum of service years plus age equal 87
	Reduced retirement	At least 10 years service or 60 years old
Tier 3	Participation date	After December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old OR age 57+ and sum of service years plus age equal 87
	Reduced retirement	Not Available

Cost of living adjustments are provided at the discretion of the General Assembly. Retirement is based on a factor of the number of years' service and hire date multiplied by the average of the highest five years' earnings. Reduced benefits are based on factors of both of these components. Participating employees become eligible to receive the health insurance benefit after at least 180 months of service. Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are \$5,000 in lump sum. Five years' service is required for death benefits prior to retirement and the employee must have suffered a duty-related death. The decedent's beneficiary will receive the higher of the normal death benefit and \$10,000 plus 25% of the decedent's monthly final rate of pay and any dependent child will receive 10% of the decedent's monthly final rate of pay up to 40% for all dependent children. Five years' service is required for nonservice-related disability benefits.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Contributions—Required contributions by the employee are based on the tier:

	Required Contributions
Tier 1	5%
Tier 2	5% +1% for insurance
Tier 3	5% +1% for insurance

General information about the Teachers' Retirement System of the State of Kentucky ("TRS")

Plan description—Teaching certified employees of the District and other employees whose positions require at least a college degree are provided pensions through the Teachers' Retirement System of the State of Kentucky (TRS)—a cost-sharing multiple-employer defined benefit pension plan with a special funding situation established to provide retirement annuity plan coverage for local school districts and other public educational agencies in the Commonwealth. TRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the KRS. TRS is a blended component unit of the Commonwealth of Kentucky and therefore is included in the Commonwealth's financial statements. TRS issues a publicly available financial report that can be obtained at http://www.TRS.ky.gov/05_publications/index.htm.

Benefits provided—For employees who have established an account in a retirement system administered by the Commonwealth prior to July 1, 2008, employees become vested when they complete five (5) years of credited service. To qualify for monthly retirement benefits, payable for life, employees must either:

- 1.) Attain age fifty-five (55) and complete five (5) years of Kentucky service, or
- 2.) Complete 27 years of Kentucky service.

Employees that retire before age 60 with less than 27 years of service receive reduced retirement benefits. Non-university employees with an account established prior to July 1, 2002 receive monthly payments equal to two (2) percent (service prior to July 1, 1983) and two and one-half (2.5) percent (service after July 1, 1983) of their final average salaries for each year of credited service. New employees (including second retirement accounts) after July 1, 2002 will receive monthly benefits equal to 2% of their final average salary for each year of service if, upon retirement, their total service less than ten years. New employees after July 1, 2002 who retire with ten or more years of total service will receive monthly benefits equal to 2.5% of their final average salary for each year of service, including the first ten years.

In addition, employees who retire July 1, 2004 and later with more than 30 years of service will have their multiplier increased for all years over 30 from 2.5% to 3.0% to be used in their benefit calculation. Effective July 1, 2008, the System has been amended to change the benefit structure for employees hired on or after that date.

Final average salary is defined as the member's five (5) highest annual salaries for those with less than 27 years of service. Employees at least age 55 with 27 or more years of service may use their three (3) highest annual salaries to compute the final average salary. TRS also provides disability benefits for vested employees at the rate of sixty (60) percent of the final average salary. A life insurance benefit, payable upon the death of a member, is \$2,000 for active contributing employees and \$5,000 for retired or disabled employees.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Cost of living increases are one and one-half (1.5) percent annually. Additional ad hoc increases and any other benefit amendments must be authorized by the General Assembly.

Contributions—Contribution rates are established by Kentucky Revised Statutes (KRS). Non-university employees are required to contribute 12.855% of their salaries to the System. University employees are required to contribute 10.40% of their salaries. KRS 161.580 allows each university to reduce the contribution of its employees by 2.215%; therefore, university employees contribute 8.185% of their salary to TRS.

The Commonwealth of Kentucky, as a non-employer contributing entity, pays matching contributions at the rate of 13.105% of salaries for local school district and regional cooperative employees hired before July 1, 2008 and 14.105% for those hired after July 1, 2008. For local school district and regional cooperative employees whose salaries are federally funded, the employer contributes 16.105% of salaries. If an employee leaves covered employment before accumulating five (5) years of credited service, accumulated employee pension contributions plus interest are refunded to the employee upon the member's request.

Medical Insurance Plan

Plan description—In addition to the pension benefits described above, KRS 161.675 requires TRS to provide post-employment healthcare benefits to eligible employees and dependents. The TRS Medical Insurance Fund is a cost-sharing multiple employer defined benefit plan. Changes made to the medical plan may be made by the TRS Board of Trustees, the Kentucky Department of Employee Insurance and the General Assembly.

To be eligible for medical benefits, the member must have retired either for service or disability. The TRS Medical Insurance Fund offers coverage to employees under the age of 65 through the Kentucky Employees Health Plan administered by the Kentucky Department of Employee Insurance. Once retired employees and eligible spouses attain age 65 and are Medicare eligible, coverage is obtained through the TRS Medicare Eligible Health Plan.

Funding policy—In order to fund the post-retirement healthcare benefit, six percent (6%) of the gross annual payroll of employees before July 1, 2008 is contributed. Three percent (3%) is paid by member contributions and three quarters percent (.75%) from Commonwealth appropriation and two and one quarter percent (2.25%) from the employer. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan.

At June 30, 2018, the District reported a liability for its proportionate share of the net pension liability for CERS. The District did not report a liability for the District's proportionate share of the net pension liability for TRS because the Commonwealth of Kentucky provides the pension support directly to TRS on behalf of the District. The amount recognized by the District as its proportionate share of the net pension liability, the related Commonwealth support, and the total portion of the net pension liability that was associated with the District were as follows:

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

District's proportionate share of the CERS net pension liability \$ 9,798,203

Commonwealth's proportional share of the TRS net pension liability associated with the District 108,585,308

\$ 118,383,511

The net pension liability for each plan was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

The District's proportion of the net pension liability for CERS was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2017, the District's proportion was 0.167396% percent.

For the year ended June 30, 2018, the District recognized pension expense of \$2,126,722 related to CERS and \$3,857,973 related to TRS. The District also recognized revenue of \$3,857,973 for TRS support provided by the Commonwealth. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 12,153	\$ 248,720
Changes of assumptions	1,808,034	-
Net difference between projected and actual earnings on pension plan investments	776,006	654,813
Changes in proportion and differences between District contributions and proportionate share of contributions	257,616	-
District contributions subsequent to the measurement date	<u>588,572</u>	<u>-</u>
Total	<u><u>\$ 3,442,381</u></u>	<u><u>\$ 903,533</u></u>

\$588,572 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2019	869,455
2020	833,737
2021	372,897
2022	(125,813)
2023	-

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Actuarial assumptions—The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Teachers' Retirement System (TRS)

The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation Date	June 30, 2017
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percent of Pay, closed
Remaining Amortization Period	27.4 years
Asset Valuation Method	5-year smoothed market
Investment rate of return	7.50%, net of pension plan investment expenses, including inflation
Projected salary increases	3.5-7.3%, includes inflation
Cost of living adjustments	1.50% annually
Inflation rate	3.00%

County Employees' Retirement System (CERS)

The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation Date	June 30, 2017
Experience Study	July 1, 2008-June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percent of Pay, closed
Remaining Amortization Period	27 years
Asset Valuation Method	5-year smoothed market
Investment rate of return	6.25%, net of pension plan investment expenses, including inflation
Projected salary increases	3.05% average, includes inflation
Inflation rate	2.30%

For CERS, the mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted. The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2008 – June 30, 2013.

For TRS, Mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on a projection of Scale AA to 2020 with a setback of 1 year for females. The last experience study was performed in 2015.

For CERS, the long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for the system. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated April 30, 2014. Several factors are

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

For TRS, the long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by TRS's investment consultant, are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
U.S. Equity	42.00%	4.40%
International Equity	20.00%	5.30%
Fixed Income	16.00%	1.50%
Additional Categories	9.00%	3.6%
Real Estate	5.00%	4.40%
Alternatives	6.00%	6.7%
Cash	2.0%	.8%
Total	100.0%	

For CERS the target asset allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by CERS's investment consultant, are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
U.S. Equity	17.50%	5.97%
International Equity	17.50%	7.85%
Global Bonds	4.00%	2.63%
Global Credit	2.00%	3.63%
High Yield	7.00%	5.75%
Emerging Market Debt	5.00%	5.50%
Private Credit	10.00%	8.75%
Real Estate	5.00%	7.63%
Absolute Return	10.00%	5.63%
Real Return	10.00%	6.13%
Private Equity	10.00%	8.25%
Cash	2.0%	1.5%
Total	100.0%	6.56%

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Discount rate—For CERS, the discount rate used to measure the total pension liability was 6.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan employees and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 6.25%. The long-term investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

For TRS, the discount rate used to measure the total pension liability was 4.49%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the employer contributions will be made at statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan employees until the 2040 plan year. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments through 2039 and a municipal bond index rate of 3.01% was applied to all periods of projected benefit payments after 2039. The Single Equivalent Interest Rate (SEIR) that discounts the entire projected benefit stream to the same amount as the sum of the present values of the two separate benefit payments streams was used to determine the total pension liability.

Sensitivity of CERS and TRS proportionate share of net pension liability to changes in the discount rate—The following table presents the net pension liability of the District, calculated using the discount rates selected by each pension system, as well as what the District's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
CERS	5.25%	6.25%	7.25%
District's proportionate share of net pension liability	12,357,651	9,798,203	7,657,243
TRS	3.49%	4.49%	5.49%
District's proportionate share of net pension liability	0	0	0

Pension plan fiduciary net position—Detailed information about the pension plan's fiduciary net position is available in the separately issued financial reports of both CERS and KTRS.

NOTE I – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

Teachers' Retirement System of Kentucky

Plan description – Teaching-certified employees of the Kentucky School District are provided OPEBs through the Teachers' Retirement System of the State of Kentucky (TRS)—a cost-sharing multiple-employer defined benefit OPEB plan with a special funding situation established to provide retirement annuity plan coverage for local school districts and other public educational agencies in the state. TRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). TRS is a blended component unit of the Commonwealth of Kentucky and therefore is included in the Commonwealth's financial statements. TRS issues a publicly available financial report that can be obtained at <https://trs.ky.gov/financial-reports-information>.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

The state reports a liability, deferred outflows of resources and deferred inflows of resources, and expense as a result of its statutory requirement to contribute to the TRS Medical Insurance and Life Insurance Plans. The following information is about the TRS plans:

Medical Insurance Plan

Plan description – In addition to the OPEB benefits described above, Kentucky Revised Statute 161.675 requires TRS to provide post-employment healthcare benefits to eligible members and dependents. The TRS Medical Insurance benefit is a cost-sharing multiple employer defined benefit plan with a special funding situation. Changes made to the medical plan may be made by the TRS Board of Trustees, the Kentucky Department of Employee Insurance and the General Assembly.

Benefits provided – To be eligible for medical benefits, the member must have retired either for service or disability. The TRS Medical Insurance Fund offers coverage to members under the age of 65 through the Kentucky Employees Health Plan administered by the Kentucky Department of Employee Insurance. TRS retired members are given a supplement to be used for payment of their health insurance premium. The amount of the member's supplement is based on a contribution supplement table approved by the TRS Board of Trustees. The retired member pays premiums in excess of the monthly supplement. Once retired members and eligible spouses attain age 65 and are Medicare eligible, coverage is obtained through the TRS Medicare Eligible Health Plan.

Contributions – In order to fund the post-retirement healthcare benefit, seven and one-half percent (7.50%) of the gross annual payroll of members is contributed. Three percent (3.75%) is paid by member contributions and three quarters percent (.75%) from state appropriation and three percent (3.00%) from the employer. The state contributes the net cost of health insurance premiums for members who retired on or after July 1, 2010 who are in the non-Medicare eligible group. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan.

At June 30, 2018, the Russell County District reported a liability of \$7,637,000 for its proportionate share of the collective net OPEB liability that reflected a reduction for state OPEB support provided to the District. The collective net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the collective net OPEB liability was based on a projection of the District's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2017, the District's proportion was .21417 percent, which is the same as its proportion measured as of June 30, 2016.

The amount recognized by the District as its proportionate share of the OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the District were as follows:

District's proportionate share of the net OPEB liability	\$ 7,637,000
State's proportionate share of the net OPEB liability associated with the District	<u>6,239,000</u>
Total	<u>\$13,876,000</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the year ended June 30, 2018, the District recognized OPEB expense of \$800,324 and revenue of \$303,426 for support provided by the State. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	53,937
Changes in proportion and differences between District contributions and proportionate share of contributions	-	-
District contributions subsequent to the measurement date	<u>362,117</u>	<u>-</u>
Total	<u>362,117</u>	<u>53,937</u>

Of the total amount reported as deferred outflows of resources related to OPEB, \$362,117 resulting from District contributions subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the collective net OPEB liability in the year ended June 30, 2019.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in the District's OPEB expense as follows:

Year ended June 30:

2019	\$ (13,484)
2020	(13,484)
2022	(13,484)
2023	(13,485)
2024	-
Thereafter	-

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Actuarial assumptions – The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Investment rate of return	8.00%, net of OPEB plan investment expense, including inflation.
Projected salary increases	3.50 – 7.20%, including inflation
Inflation rate	3.00%
Real Wage Growth	0.50%
Wage Inflation	3.50%
Healthcare cost trend rates	
Under 65	7.75% for FY 2017 decreasing to an ultimate rate of 5.00% by FY 2023
Ages 65 and Older	5.75% for FY 2017 decreasing to an ultimate rate of 5.00% by FY 2020
Medicare Part B Premiums	1.02% for FY 2017 with an ultimate rate of 5.00% by 2029
Municipal Bond Index Rate	3.56%
Discount Rate	8.00%
Single Equivalent Interest Rate	8.00%, net of OPEB plan investment expense, including inflation.

Mortality rates were based on the RP-2000 Combined Mortality Table projected to 2025 with projection scale BB and set forward two years for males and one year for females is used for the period after service retirement and for dependent beneficiaries. The RP-2000 Disabled Mortality Table set forward two years for males and seven years for females is used for the period after disability retirement.

The remaining actuarial assumptions (e.g. initial per capita costs, health care cost trends, rate of plan participation, rates of plan election, etc.) used in the June 30, 2016 valuation were based on a review of recent plan experience done concurrently with the June 30, 2016 valuation.

The long-term expected rate of return on OPEB plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by TRS's investment consultant, are summarized in the following table:

Asset Class	Target Allocation	30 Year Expected Geometric Real Rate of Return
Global Equity	60.0%	5.1%
Fixed Income	9.0%	1.2%
Real Estate	4.5%	4.0%
Private Equity	5.5%	6.6%
High Yield	10.0%	4.3%
Other Additional Categories*	10.0%	3.3%
Cash (LIBOR)	1.0%	0.5%
Total	100.0%	

*Modeled as 50% High Yield and 50% Bank Loans.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Discount rate - The discount rate used to measure the total OPEB liability was 8.00%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the employer contributions will be made at statutorily required rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

The following table presents the District's proportionate share of the collective net OPEB liability of the System, calculated using the discount rate of 8.00%, as well as what the District's proportionate share of the collective net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.00%) or 1-percentage-point higher (9.00%) than the current rate:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
TRS	7.00%	8.00%	9.00%
District's proportionate share of net OPEB liability	8,893,318	7,637,000	6,591,202

Sensitivity of the District's proportionate share of the collective net OPEB liability to changes in the healthcare cost trend rates – The following presents the District's proportionate share of the collective net OPEB liability, as well as what the District's proportionate share of the collective net OPEB liability would be if it were calculated using healthcare cost trend rates that were 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	<u>1% Decrease</u>	<u>Current Trend Rate</u>	<u>1% Increase</u>
District's proportionate share of net OPEB liability	6,395,783	7,637,000	9,169,440

OPEB plan fiduciary net position – Detailed information about the OPEB plan's fiduciary net position is available in the separately issued TRS financial report.

Life Insurance Plan

Plan description – Life Insurance Plan – TRS administers the life insurance plan as provided by Kentucky Revised Statute 161.655 to eligible active and retired members. The TRS Life Insurance benefit is a cost-sharing multiple employer defined benefit plan with a special funding situation. Changes made to the life insurance plan may be made by the TRS Board of Trustees and the General Assembly.

Benefits provided – TRS provides a life insurance benefit of five thousand dollars payable for members who retire based on service or disability. TRS provides a life insurance benefit of two thousand dollars payable for its active contributing members. The life insurance benefit is payable upon the death of the member to the member's estate or to a party designated by the member.

Contributions – In order to fund the post-retirement life insurance benefit, three hundredths of one percent (.03%) of the gross annual payroll of members is contributed by the state.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

At June 30, 2018, the Kentucky School District did not report a liability for its proportionate share of the collective net OPEB liability for life insurance benefits because the State of Kentucky provides the OPEB support directly to TRS on behalf of the District. The amount recognized by the District as its proportionate share of the OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the District were as follows:

District's proportionate share of the net OPEB liability	
State's proportionate share of the net OPEB liability associated with the District	<u>84,000</u>
Total	<u>\$ 84,000</u>

Actuarial assumptions – The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Investment rate of return	7.50%, net of OPEB plan investment expense, including inflation.
Projected salary increases	3.50 – 7.20%, including inflation
Inflation rate	3.00%
Real Wage Growth	0.50%
Wage Inflation	3.50%
Municipal Bond Index Rate	3.56%
Discount Rate	7.50%
Single Equivalent Interest Rate	7.50%, net of OPEB plan investment expense, including inflation.

Mortality rates were based on the RP-2000 Combined Mortality Table projected to 2025 with projection scale BB and set forward two years for males and one year for females is used for the period after service retirement and for dependent beneficiaries. The RP-2000 Disabled Mortality Table set forward two years for males and seven years for females is used for the period after disability retirement.

The remaining actuarial assumptions (e.g. initial per capita costs, rate of plan participation, rates of plan election, etc.) used in the June 30, 2016 valuation were based on a review of recent plan experience done concurrently with the June 30, 2016 valuation.

The long-term expected rate of return on OPEB plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

The target allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by TRS's investment consultant, are summarized in the following table:

<u>Asset Class*</u>	<u>Target Allocation</u>	<u>30 Year Expected Geometric Real Rate of Return</u>
U.S. Large Cap Equity	38.4%	4.3%
U.S. Small Cap Equity	2.6%	4.8%
Developed Int'l Equity	15.8%	5.2%
Emerging Markets Equity	4.2%	5.4%
Fixed Income - Inv Grade	16.0%	1.2%
Real Estate	6.0%	4.0%
Private Equity	7.0%	6.6%
High Yield	2.0%	4.3%
Other Additional Categories**	7.0%	3.3%
Cash (LIBOR)	1.0%	0.5%
Total	<u>100.0%</u>	

**As the LIF investment policy is to change, the above reflects the pension allocation and returns that achieve the target 7.5% long-term rate of return.*

***Modeled as 50% High Yield and 50% Bank Loans.*

Discount rate - The discount rate used to measure the total OPEB liability for life insurance was 7.50%. The projection of cash flows used to determine the discount rate assumed that the employer contributions will be made at statutorily required rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

OPEB plan fiduciary net position – Detailed information about the OPEB plan's fiduciary net position is available in the separately issued TRS financial report.

County Employees' Retirement System of Kentucky

Plan description – Classified (non-certified) employees of the Kentucky School District are provided OPEBs through the County Employees Retirement System of the State of Kentucky (CERS)—a cost-sharing multiple-employer defined benefit OPEB plan retirement annuity plan coverage for local school districts and other public agencies in the state. CERS was established July 1, 1958 by the state legislature. CERS is a blended component unit of the Commonwealth of Kentucky and therefore is included in the Commonwealth's financial statements. CERS issues a publicly available financial report that can be obtained at <https://kyret.ky.gov/About/Board-of-Trustees/Pages/CAFR-and-SAFR.aspx>.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

The state reports a liability, deferred outflows of resources and deferred inflows of resources, and expense as a result of its statutory requirement to contribute to the CERS Medical Insurance. The following information is about the CERS plans:

Medical Insurance Plan

Plan description –The Kentucky Retirement Systems’ Insurance Fund (Insurance Fund) was established to provide hospital and medical insurance for eligible members receiving benefits from KERS, CERS, and SPRS, the state retirement options. The eligible non-Medicare retirees are covered by the Department of Employee Insurance (DEI) plans. The Board contracts with Humana to provide health care benefits to the eligible Medicare retirees through a Medicare Advantage Plan. The Insurance Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance. It is noted that while this insurance fund covers employees eligible through KERS, CERS, and SPRS, only the portion related to CERS is applicable to RUSSELL County School District since the District does not have or qualify to have employees participate in KERS or SPRS.

Benefits provided – Medical Insurance coverage is provided based on the member’s initial participation date and length of service. Members received either a percentage or dollar amount for insurance coverage. The amount of contribution paid by the Insurance Fund is based on years of service. For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

<u>Years of Service</u>	<u>Paid By Insurance Fund (%)</u>
20+	100%
15-19	75%
10-14	50%
4-9	25%
Less than 4	0%

Medical insurance benefits are calculated differently for members who began participating on or after July 1, 2003. Once members reach a vesting period of 10 years, non-hazardous employees whose participation began on or after July 1, 2003 earn \$10 per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. This dollar amount is subject to adjustment annually, which is currently 1.5%, based upon Kentucky Revised Statutes. The Kentucky General Assembly reserves the right to suspend or reduce this benefit if, in its judgment, the welfare of the Commonwealth so demands. Only benefit descriptions applicable to CERS Non-Hazardous have been included with this information since only that portion is applicable to the District.

Contributions – In order to fund the post-retirement healthcare benefit, four and seventy tenths percent (4.70%) of the gross annual payroll of members is contributed for the year ended June 30, 2018 for CERS Non-Hazardous, which is the portion of the plan applicable to the District, and this portion is paid 100% paid by employer contributions. One percent (1.00%) is contributed by employees hired on or after September 1, 2008.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

At June 30, 2018, the Russell County District reported a liability of \$3,365,232 for its proportionate share of the collective net OPEB liability that reflected a reduction for state OPEB support provided to the District. The collective net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the collective net OPEB liability was based on a projection of the District's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2017, the District's proportion was .167396 percent, which is the same as it's proportion measured as of June 30, 2016.

The amount recognized by the District as its proportionate share of the OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the District were as follows:

District's proportionate share of the net OPEB liability	\$ 3,365,232
State's proportionate share of the net OPEB liability associated with the District	<u>-0-</u>
Total	<u>\$ 3,365,232</u>

For the year ended June 30, 2018, the District recognized OPEB expense of \$319,904. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 9,347
Changes of assumptions	732,253	-
Net difference between projected and actual earnings on pension plan investments	-	159,039
Changes in proportion and differences between District contributions and proportionate share of contributions	-	7,808
District contributions subsequent to the measurement date	<u>232,171</u>	<u>-</u>
Total	<u>964,424</u>	<u>176,194</u>

Of the total amount reported as deferred outflows of resources related to OPEB, \$232,171 resulting from District contributions subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the collective net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in the District's OPEB expense as follows:

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Year ended June 30:

2019	\$ 95,675
2020	95,675
2021	95,675
2021	95,675
2023	135,435
Thereafter	37,924

Actuarial assumptions – The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation Date	June 30, 2015
Experience Study	July 1, 2008-June 30 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percent of Pat
Remaining Amortization Period	28 Years, Closed
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Investment rate of return	7.50%
Projected salary increases	4.00% average
Inflation rate	3.25%
Payroll Growth Rate	4.00%
Healthcare cost trend rates	
Under 65	Initial trend starting at 7.5% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 5 years
Ages 65 and Older	Initial trend starting at 5.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 2 years

Mortality rates were based on the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table Projected with Scale BB to 2013 (Set-back for one year for females) For Disabled members, the RP-2000 Combined Disability Mortality Table projected with Scale BB to 2013(set back four years for males) is used for period after disability retirement.

The long-term expected rate of return on OPEB plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

The target allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by CERS's investment consultant, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
U.S. Equity	17.50%	5.97%
International Equity	17.50%	7.85%
Global Bonds	4.00%	2.63%
Global Credit	2.00%	3.63%
High Yield	7.00%	5.75%
Emerging Market Debt	5.00%	5.50%
Private Credit	10.00%	8.75%
Real Estate	5.00%	7.63%
Absolute Return	10.00%	5.63%
Real Return	10.00%	6.13%
Private Equity	10.00%	8.25%
Cash	2.0%	1.5%
Total	100.0%	6.56%

Discount rate - The discount rate used to measure the total OPEB liability was 5.84%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the employer contributions will be made at statutorily required rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

The following table presents the District's proportionate share of the collective net OPEB liability of the System, calculated using the discount rate of 5.84%, as well as what the District's proportionate share of the collective net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.84%) or 1-percentage-point higher (6.84%) than the current rate:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
CERS	4.84%	5.84%	6.84%
District's proportionate share of net OPEB liability	4,282,071	3,365,232	2,602,278

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Sensitivity of the District's proportionate share of the collective net OPEB liability to changes in the healthcare cost trend rates – The following presents the District's proportionate share of the collective net OPEB liability, as well as what the District's proportionate share of the collective net OPEB liability would be if it were calculated using healthcare cost trend rates that were 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	<u>1% Decrease</u>	<u>Current Trend Rate</u>	<u>1% Increase</u>
Systems' net pension liability	2,581,306	3,365,232	4,384,290

OPEB plan fiduciary net position – Detailed information about the OPEB plan's fiduciary net position is available in the separately issued CERS financial report.

NOTE J – CONTINGENCIES

The District receives funding from federal, state, and local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if based upon the grantor's review, the funds are considered not to have been used for the intended purpose, the grantors may request a refund of monies advanced, or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected, to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

NOTE K – INSURANCE AND RELATED ACTIVITIES

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas is covered through the purchase of commercial insurance. The District has purchased certain policies, which are retrospectively related including Workers' Compensation insurance.

NOTE L – RISK MANAGEMENT

The District is exposed to various risks of loss related to injuries to employees. To obtain insurance of workers' compensation, errors and omissions, and general liability coverage, the District obtains quotes from commercial insurance companies. Currently the District maintains insurance coverage through the Netherlands Insurance Company.

The District purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE M – DEFICIT OPERATING BALANCES

The Food Service Funds had a deficit fund balance in the amount of \$635,855 at June 30, 2018. Additionally, the following funds have operations that resulted in a current year deficit of expenditures over revenues resulting in a corresponding reduction of fund balance:

Construction Fund	195,748
Special Revenue Fund	73,665
General Fund	268,289
Debt Service Fund	2,580,821
District Activity Fund	7,323

NOTE N – COBRA

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the School District at risk for a substantial loss (contingency).

NOTE O – TRANSFER OF FUNDS

The following transfers were made during the year:

Type	From Fund	To Fund	Purpose	Amount
Matching	General	Special Revenue	Technology Match	63,037
Operating	Capital Outlay	Debt Service	Debt Service	271,018
Operating	Building	General	Operating	373,857
Operating	Building Fund	Debt Service	Debt Service	<u>2,309,803</u>
		Subtotal Governmental Funds Transferred		3,017,715
Operating	Food Service	General	Indirect Costs	<u>124,765</u>
		Total Funds Transfer		<u>3,142,480</u>

NOTE P – INTERFUND RECEIVABLES AND PAYABLES

There were no interfund balances at June 30, 2018.

NOTE Q – SUBSEQUENT EVENTS

Management has reviewed subsequent events through October 5, 2018. There are no material subsequent events to disclose.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE R – ON-BEHALF PAYMENT

For the year ended June 30, 2018, \$8,114,278 in on-behalf payments were made by the Commonwealth of Kentucky for the benefit of the District. Payments for life insurance, health insurance, Kentucky teacher retirement matching pension contributions, administrative fees, technology and debt service were paid by the State for the District. These payments were recognized as on-behalf payments and recorded in the appropriate revenue and expense accounts. These payments were as follows:

Teachers Retirement System (GASB 68 Schedule A)	\$3,857,973
Teachers Retirement System (GASB 75)	303,426
Health Insurance	3,674,993
Life Insurance	5,481
Administrative Fee	45,357
HRA/Dental/Vision	135,467
Federal Reimbursement	(213,929)
Technology	55,322
SFCC Debt Service Payments	<u>250,188</u>
Total	<u>\$8,114,278</u>

NOTE S – NET POSITION, AS RESTATED

Governmental Accounting Standards Board statement 75 requires changes to the beginning balances of the Statement of Net Position. Beginning net position of the government activities was decreased \$9,123,173 and the beginning net position of the proprietary activities was decreased by \$519,006 to reflect the District's proportionate share of the unfunded Other Postemployment Benefits (OPEB) liability of the County Employee Retirement System and Teachers Retirement System. Additionally, the governmental activities beginning net position was increased by \$1,210,607 and the proprietary activities beginning net position was decreased by \$1,210,607 to allocate the beginning net pension liability and related deferred outflows and inflows to the proprietary activities.

	Governmental <u>Activities</u>	Proprietary <u>Activities</u>
Beginning Net Position as previously reported on June 30, 2017	\$ 12,850,486	\$ 1,580,504
Prior period adjustment		
Deferred Outflows – Pension Related	(530,132)	530,132
Net Pension Liability	1,669,387	(1,669,387)
Deferred Inflows – Pension Related	71,352	(71,352)
Implementation GASB 75:		
Net OPEB Liability (measurement date)	(9,640,995)	(559,593)
Deferred outflows – District's contributions made during fiscal year 2017	<u>517,822</u>	<u>40,587</u>
Total prior period adjustment	<u>(7,912,566)</u>	<u>(1,729,613)</u>
Net Position as restated, July 1, 2017	<u>\$ 4,937,920</u>	<u>(149,109)</u>

REQUIRED SUPPLEMENTARY INFORMATION

RUSSELL COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2018

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
REVENUES:				
Taxes	5,323,816	5,323,816	5,512,127	188,311
Other Local Sources	297,644	30,000	47,008	17,008
State Sources	12,090,750	12,090,750	19,940,679	7,849,929
Federal Sources	395,000	395,000	429,509	34,509
Other Sources	0	267,644	950,241	682,597
TOTAL REVENUES	18,107,210	18,107,210	26,879,564	8,772,354
EXPENDITURES:				
Instructional	10,508,672	10,508,672	16,631,597	(6,122,925)
Student Support Services	1,505,863	1,505,863	1,826,272	(320,409)
Staff Support Services	376,963	376,963	577,270	(200,307)
District Administration	1,403,183	1,403,183	833,467	569,716
School Administration	1,262,403	1,262,403	1,534,926	(272,523)
Business Support Services	768,384	768,384	893,190	(124,806)
Plant Operation & Maintenance	1,855,085	1,855,085	2,004,053	(148,968)
Student Transportation	1,720,604	1,720,604	2,235,123	(514,519)
Community Service Operations		0	56,476	(56,476)
Debt Service:				
Principal	38,336	35,028	35,028	0
Interest		3,307	3,307	0
Other			63,037	(63,037)
TOTAL EXPENDITURES	19,439,493	19,439,492	26,693,746	(7,254,254)
NET CHANGE IN FUND BALANCE	(1,332,283)	(1,332,282)	185,818	1,518,100
FUND BALANCES - BEGINNING	1,332,283	1,332,282	1,332,283	0
FUND BALANCES - ENDING	0	0	1,518,101	1,518,100

On-behalf payments totaling \$7,602,298 are not budgeted by the Russell County School District.

See independent auditor's report and accompanying notes to financial statements.

RUSSELL COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL - SPECIAL REVENUE FUND
FOR THE YEAR ENDED JUNE 30, 2018

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
REVENUES:				
Other Local Sources		0	526	526
State Sources	532,988	1,237,954	1,189,899	(48,055)
Federal Sources	225,850	1,601,999	2,240,379	638,380
Other Sources	0	105,307	176,270	70,963
TOTAL REVENUES	758,838	2,945,260	3,607,074	661,814
EXPENDITURES:				
Instructional	539,436	2,158,478	2,815,206	(656,728)
Student Support Services	114,559	106,131	125,457	(19,326)
Staff Support Services	40,487	296,351	248,980	47,371
District Administration		0	0	0
School Administration		0	0	0
Business Support Services		29,821	24,771	5,050
Plant Operation & Maintenance		42,994	42,993	1
Student Transportation	64,356	45,566	44,296	1,270
Food Service		0	0	0
Central Office		0	0	0
Community Service Operations		265,919	315,999	(50,080)
Facility Acquisition & Construction			0	0
Other			0	0
TOTAL EXPENDITURES	758,838	2,945,260	3,617,702	(672,442)
NET CHANGE IN FUND BALANCE	0	0	(10,628)	(10,628)
FUND BALANCES - BEGINNING			10,628	0
FUND BALANCES - ENDING	0	0	0	(10,628)

See accompanying auditor's report and accompanying notes to financial statements.

RUSSELL COUNTY SCHOOL DISTRICT
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE
 OF THE NET PENSION LIABILITY
 TEACHERS' RETIREMENT SYSTEM
 FOR THE YEAR ENDED JUNE 30

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
District's proportion of net pension liability	0.00%	0.00%	0.00%	0.00%
District's proportionate share of the net pension liability	\$ -	-	-	-
State of Kentucky's share of the net pension liability associated with the district	<u>\$ 82,380,634</u>	<u>90,918,931</u>	<u>115,962,859</u>	<u>108,585,308</u>
TOTAL	<u><u>82,380,634</u></u>	<u><u>90,918,931</u></u>	<u><u>115,962,859</u></u>	<u><u>108,585,308</u></u>
District's covered-employee payroll	\$ 12,998,609	13,375,782	13,511,655	13,205,093
District's proportionate share of the net pension liability as a percentage of its covered-payroll	0.00%	0.00%	0.00%	0.00%
Plan fiduciary net position as a percentage of the total pension liability	45.59%	44.70%	57.04%	66.20%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years are not displayed.

RUSSELL COUNTY SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
COUNTY EMPLOYEES RETIREMENT SYSTEM
FOR THE YEAR ENDED JUNE 30

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
District's proportion of net pension liability	0.155204%	0.159254%	0.160200%	0.167396%
District's proportionate share of the net pension liability	\$ 5,035,000	6,847,176	7,889,354	9,798,203
State of Kentucky's share of the net pension liability associated with the district	-	-	-	-
TOTAL	<u>\$ 5,035,000</u>	<u>6,847,176</u>	<u>7,889,354</u>	<u>9,798,203</u>
District's covered-employee payroll	\$ 3,721,627	3,816,206	4,047,540	4,064,722
District's proportionate share of the net pension liability as a percentage of its covered-payroll	135.29%	179.42%	194.92%	241.05%
Plan fiduciary net position as a percentage of the total pension liability	65.96%	63.46%	55.50%	53.30%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years are not displayed.

RUSSELL COUNTY SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CONTRIBUTIONS TO THE
TEACHERS RETIREMENT SYSTEM
FOR THE YEAR ENDED JUNE 30

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Contractually required contributions (actuarially determined)	\$ -	\$ -	\$ -	\$ -
Contributions in relation to the actuarially determined contributions	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	\$ 12,998,608	\$ 13,375,782	\$ 13,511,655	\$ 13,205,093
Contributions as a percentage of Covered employee payroll	0.00%	0.00%	0.00%	0.00%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years are not displayed.

RUSSELL COUNTY SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CONTRIBUTIONS TO THE
COUNTY EMPLOYEES RETIREMENT SYSTEM
FOR THE YEAR ENDED JUNE 30

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Contractually required contributions (actuarially determined)	\$ 417,132	\$ 473,973	\$ 564,632	\$ 588,572
Contributions in relation to the actuarially determined contributions	<u>417,132</u>	<u>473,973</u>	<u>564,632</u>	<u>588,572</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	\$ 3,271,627	\$ 3,816,206	\$ 4,047,540	\$ 4,064,722
Contributions as a percentage of Covered employee payroll	12.75%	12.42%	13.95%	14.48%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years are not displayed.

RUSSELL COUNTY SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE
OF THE NET OPEB LIABILITY - MEDICAL INSURANCE
COUNTY EMPLOYEES RETIREMENT SYSTEM
FOR THE YEAR ENDED JUNE 30

	<u>2018</u>
District's proportion of net OPEB liability	0.167396%
District's proportionate share of the net OPEB liability	3,365,232
State of Kentucky's share of the net OPEB liability associated with the district	<u>-</u>
TOTAL	<u><u>3,365,232</u></u>
District's covered-employee payroll	4,064,722
District's proportionate share of the net OPEB liability as a percentage of its covered-payroll	82.79%
Plan fiduciary net position as a percentage of the total OPEB liability	52.40%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years are not displayed.

RUSSELL COUNTY SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE
OF THE NET OPEB LIABILITY - MEDICAL INSURANCE PLAN
TEACHERS' RETIREMENT SYSTEM
FOR THE YEAR ENDED JUNE 30

	<u>2018</u>
District's proportion of net OPEB liability	0.2142%
District's proportionate share of the net OPEB liability	7,637,000
State of Kentucky's share of the net OPEB liability associated with the district	<u>6,239,000</u>
TOTAL	<u><u>13,876,000</u></u>
District's covered-employee payroll	\$ 13,205,093
District's proportionate share of the net OPEB liability as a percentage of its covered-payroll	57.83%
Plan fiduciary net position as a percentage of the total OPEB liability	21.18%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years are not displayed.

RUSSELL COUNTY SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE
OF THE NET OPEB LIABILITY - LIFE INSURANCE PLAN
TEACHERS' RETIREMENT SYSTEM
FOR THE YEAR ENDED JUNE 30

	<u>2018</u>
District's proportion of net OPEB liability	0.0000%
District's proportionate share of the net OPEB liability	-
State of Kentucky's share of the net OPEB liability associated with the district	<u>84,000</u>
TOTAL	<u><u>84,000</u></u>
District's covered-employee payroll	\$ 13,205,093
District's proportionate share of the net OPEB liability as a percentage of its covered-payroll	0.00%
Plan fiduciary net position as a percentage of the total OPEB liability	79.99%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years are not displayed.

RUSSELL COUNTY SCHOOL DISTRICT
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF CONTRIBUTIONS TO THE MEDICAL INSURANCE PLAN
 COUNTY EMPLOYEES RETIREMENT SYSTEM
 FOR THE YEAR ENDED JUNE 30

	<u>2018</u>
Contractually required contributions (actuarially determined)	\$ 191,042
Contributions in relation to the actuarially determined contributions	<u>191,042</u>
Contribution deficiency (excess)	<u><u>\$ -</u></u>
Covered employee payroll	\$ 4,064,722
Contributions as a percentage of Covered employee payroll	4.70%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years are not displayed.

RUSSELL COUNTY SCHOOL DISTRICT
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF CONTRIBUTIONS TO THE MEDICAL INSURANCE PLAN
 TEACHERS RETIREMENT SYSTEM
 FOR THE YEAR ENDED JUNE 30

	<u>2018</u>
Contractually required contributions (actuarially determined)	\$ 362,117
Contributions in relation to the actuarially determined contributions	<u>362,117</u>
Contribution deficiency (excess)	<u><u>\$ -</u></u>
Covered employee payroll	\$ 12,070,580
Contributions as a percentage of Covered employee payroll	3.00%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years are not displayed.

RUSSELL COUNTY SCHOOL DISTRICT
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF CONTRIBUTIONS TO THE MEDICAL INSURANCE PLAN
 TEACHERS RETIREMENT SYSTEM
 FOR THE YEAR ENDED JUNE 30

	<u>2018</u>
Contractually required contributions (actuarially determined)	\$ -
Contributions in relation to the actuarially determined contributions	<u>-</u>
Contribution deficiency (excess)	<u><u>\$ -</u></u>
Covered employee payroll	\$ 13,205,093
Contributions as a percentage of Covered employee payroll	0.00%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years are not displayed.

RUSSELL COUNTY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
FOR THE YEAR ENDED JUNE 30, 2018

TEACHERS' RETIREMENT SYSTEM

NOTE A – CHANGES OF ASSUMPTIONS

In the 2016 valuation, rates of withdrawal, retirement, disability, mortality and rates of salary increases were adjusted to more closely reflect actual experience. In the 2016 valuation and later, the expectation of retired life mortality was changed to the RP-2000 Mortality Tables projected to 2025 with projection scale BB, set forward two years for males and one year for females rather than the RP-2000 Mortality Tables projected to 2020 with projection scales AA, which was used prior to 2016.

In the 2011 valuation, rates of withdrawal, retirement, disability and mortality were adjusted to more closely reflect actual experience. In the 2011 valuation and later, the expectation of retired life mortality was changed to the RP-2000 Mortality Tables projected to 2020 with projection scale AA, set back one year for females rather than the 1994 Group Annuity Mortality Tables which was used prior to 2016. For the 2011 valuation through the 2013 valuation, an interest smoothing methodology was used to calculate liabilities for purposes of determining the actuarially determined contributions.

NOTE B – METHOD AND ASSUMPTIONS USED IN CALCULATIONS OF ACTUARIALLY DETERMINED CONTRIBUTIONS

The actuarially determined contribution rates in the schedule of employer contributions are calculated as of June 30, three years prior to the end of the fiscal year in which contributions are reported. The following actuarial methods and assumptions were used to determine contribution rates reported in the most recent year of the schedule:

Actuarial Cost Method	Entry age
Amortization Period	Level percentage of payroll, open
Remaining amortization period	30 years
Asset valuation method	5-year smoothed market
Inflation	3.5 percent
Salary Increase	4.00 to 8.20 percent, including inflation
Ultimate Investment rate of return	7.50 percent, net of pension plan investment Expense, including inflation

NOTE C – CHANGES OF BENEFITS

There were no changes in benefits for TRS pension.

RUSSELL COUNTY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
FOR THE YEAR ENDED JUNE 30, 2018

COUNTY EMPLOYEES RETIREMENT SYSTEM (CONTINUED)

NOTE A – CHANGES OF ASSUMPTIONS

2015

The following changes were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2015:

The assumed investment rate of return was decreased from 7.75% to 7.50%

The assumed inflation rate was reduced from 3.5% to 3.255%

The assumed rate of wage inflation was reduced from 1.00% to .75%

Payroll growth assumption was reduced from 4.5% to 4%

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females)

For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement.

The assumed rates of Retirement, Withdrawal and Disability were updated to more accurately reflect experience.

2016

There were no changes of assumptions for the year ended June 30, 2016.

2017

The following changes were made by the KRS Board of trustees and reflected in the valuation performed as of June 30, 2017:

The assumed rate of inflation was reduced to 2.30% from 3.25%

The assumed salary increases were reduced to 3.05%, average, from 4.00%, average including inflation

The assumed investment rate of return was reduced to 6.25% from 7.50%

RUSSELL COUNTY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE
OF THE NET OPEB LIABILITY
FOR THE YEAR ENDED JUNE 30, 2018

COUNTY EMPLOYEES RETIREMENT SYSTEM (CONTINUED)

NOTE B – METHOD AND ASSUMPTIONS USED IN CALCULATIONS OF ACTUARIALLY DETERMINED CONTRIBUTIONS

The actuarially determined contribution rates in the schedule of contribution are determined on a biennial basis beginning with the fiscal years ended 2016 and 2017, determined as of July 1, 2015. The amortization period of the unfunded liability has been reset as of July 1, 2013 to a closed 30-year period. The following actuarial methods and assumptions were used to determine the rates reported in that schedule:

Valuation Date	June 30, 2015
Experience Study	July 1, 2008 – June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll
Remaining Amortization Period	28 years, Closed
Payroll Growth Rate	4.00%
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	3.25 percent
Salary Increase	4.0 percent, average
Investment Rate of Return	7.5 percent, net of pension plan investment expense, including inflation

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set-back for one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set-back four years for males) is used for the period after disability retirement.

NOTE C – CHANGES OF BENEFITS

There were no changes in benefits for CERS pension.

RUSSELL COUNTY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE
OF THE NET OPEB LIABILITY
FOR THE YEAR ENDED JUNE 30, 2018

TEACHERS' RETIREMENT SYSTEM

NOTE A – CHANGES OF ASSUMPTIONS

There were no changes in assumptions.

NOTE B – METHOD AND ASSUMPTIONS USED IN CALCULATIONS OF ACTUARIALLY DETERMINED CONTRIBUTIONS

Methods and assumptions used in the actuarially determined contributions – The actuarially determined contribution rates, as a percentage of payroll, used to determine the actuarially determined contribution amounts in the Schedule of Employer Contributions are calculated as the of the indicated valuation date. The following actuarial methods and assumptions (from the indicated actuarial valuations) were used to determine contribution rates reported in that schedule for the year ending June 30, 2017:

Valuation date	June 30, 2016
Actuarial cost method	Entry Age Normal
Amortization method	Level Percent of Payroll
Amortization period	30 years, Open
Asset valuation method	Five-year smoothed value
Inflation	3.00%
Real wage growth	0.50%
Wage inflation	4.00%
Salary increases, including wage inflation	3.5% - 7.20%
Discount rate	8.00%
Health care cost trends	
Under 65	7.75% for FY 2017 decreasing to an ultimate rate of 5.00% by FY 2023
Ages 65 and older	5.75% for FY 2017 decreasing to an ultimate rate of 5.00% by FY 2020
Medicare Part B premiums	1.02% for FY 2017 with an ultimate rate of 5.00% by 2029
Under age 65 claims	the current premium charged by KEHP is used as the base cost and is projected forward using only the health care trend assumption (no implicit rate subsidy is recognized).

NOTE C – CHANGES OF BENEFITS

Changes of benefit terms – With the passage of House Bill 471, the eligibility for non-single subsidies (NSS) for the KEHP-participating members who retired prior to July 1, 2010 is restored, but the state will only finance, via its KEHP “Shared Responsibility” contributions, the costs of the NSS related to those KEHP-participating members who retired on or after July 1, 2010.

RUSSELL COUNTY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE
OF THE NET OPEB LIABILITY
FOR THE YEAR ENDED JUNE 30, 2018
COUNTY EMPLOYEES RETIREMENT SYSTEM

NOTE A – CHANGES OF ASSUMPTIONS

The assumed investment return was changed from 7.5% to 6.2%

The price inflation assumption was changed from 3.25% to 2.30% which resulted in a .95% decrease in the salary increase assumption at all years of service

The payroll growth assumption (*applicable for the amortization of unfunded actuarial accrued liabilities) was changed from 4.0% to 2.0%

For the non-hazardous plan, the single discount rate changed from 6.89% to 5.84%. For the hazardous plan the single discount rate changed from 7.37% to 5.96%

NOTE B – METHOD AND ASSUMPTIONS USED IN CALCULATIONS OF ACTUARIALLY DETERMINED CONTRIBUTIONS

Methods and assumptions used in the actuarially determined contributions – The actuarially determined contribution rates, as a percentage of payroll, used to determine the actuarially determined contribution amounts in the Schedule of Employer Contributions are calculated as the of the indicated valuation date. The following actuarial methods and assumptions (from the indicated actuarial valuations) were used to determine contribution rates reported in that schedule for the year ending June 30, 2017:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll
Remaining Amortization Period	28 years, Closed
Payroll Growth Rate	4.00%
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	3.25 percent
Salary Increase	4.0 percent, average
Investment Rate of Return	7.5 %
Healthcare cost trend rates	
Under 65	Initial trend starting at 7.5% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 5 years
Ages 65 and Older	Initial trend starting at 5.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 2 years

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set-back for one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set-back four years for males) is used for the period after disability retirement.

NOTE C – CHANGES OF BENEFITS

There were no changes in benefits for CERS OPEB.

OTHER SUPPLEMENTARY INFORMATION

RUSSELL COUNTY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2018

	BUILDING FUND	SEEK CAPITAL OUTLAY FUND	DISTRICT ACTIVITY FUND	CONSTRUCTION FUND	TOTAL NON-MAJOR GOVERNMENT FUNDS
ASSETS:					
Cash & Cash Equivalents			2,076	16,952	19,028
TOTAL ASSETS	<u>0</u>	<u>0</u>	<u>2,076</u>	<u>16,952</u>	<u>19,028</u>
LIABILITIES AND FUND BALANCES:					
Liabilities:					
Accounts Payable					0
Total Liabilities	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Fund Balances:					
Restricted for:					
Other			2,076		2,076
Capital Projects				16,952	16,952
Total Fund Balances	<u>0</u>	<u>0</u>	<u>2,076</u>	<u>16,952</u>	<u>19,028</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>0</u>	<u>0</u>	<u>2,076</u>	<u>16,952</u>	<u>19,028</u>

See independent auditor's report and accompanying notes to financial statements.

RUSSELL COUNTY SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES AND EXPENDITURES AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2018

	BUILDING FUND	SEEK CAPITAL OUTLAY FUND	DISTRICT ACTIVITY FUND	CONSTRUCTION FUND	TOTAL NON-MAJOR GOVERNMENT FUNDS
REVENUES:					
Taxes	1,684,770	271,018			1,955,788
Intergovernmental - State	998,890				998,890
Earnings on Investments				3,446	3,446
Other Sources			7,868	50,000	57,868
TOTAL REVENUES	2,683,660	271,018	7,868	53,446	3,015,992
EXPENDITURES:					
Instructional			14,182		14,182
Staff Support Services			1,009		1,009
Facilities Acquisition & Construction				249,194	249,194
TOTAL EXPENDITURES	0	0	15,191	249,194	264,385
EXCESS(DEFICIT) REVENUES OVER EXPENDITURES	2,683,660	271,018	(7,323)	(195,748)	2,751,607
OTHER FINANCING SOURCES(USES):					
Operating Transfers In					0
Operating Transfers Out	(2,683,660)	(271,018)			(2,954,678)
TOTAL OTHER FINANCING SOURCES(USES)	(2,683,660)	(271,018)	0	0	(2,954,678)
NET CHANGE IN FUND BALANCES	0	0	(7,323)	(195,748)	(203,071)
FUND BALANCES - BEGINNING	0	0	9,399	212,700	222,099
FUND BALANCES - ENDING	0	0	2,076	16,952	19,028

See independent auditor's report and accompanying notes to financial statements.

RUSSELL COUNTY SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND FUND BALANCES
 AGENCY FUNDS
 FOR THE YEAR ENDED JUNE 30, 2018

	FUND BALANCE JULY 1, 2017	REVENUES	EXPENDITURES	FUND BALANCE JUNE 30, 2018
Russell Springs Elementary	44,279	21,738	13,307	52,710
Jamestown Elementary	8,320	11,647	11,954	8,013
Salem Elementary	23,919	14,837	14,288	24,468
Russell County Middle School	28,262	54,719	55,485	27,496
Russell County High School	<u>131,020</u>	<u>293,344</u>	<u>328,318</u>	<u>96,046</u>
Total Activity Funds (Due to Student Groups)	<u><u>235,800</u></u>	<u><u>396,285</u></u>	<u><u>423,352</u></u>	<u><u>208,733</u></u>

See independent accountant's report and accompanying notes to financial statements.

RUSSELL COUNTY SCHOOL DISTRICT
STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCE
HIGH SCHOOL ACTIVITY FUND
FOR THE YEAR ENDED JUNE 30, 2018

	CASH BALANCE JULY 1, 2017	RECEIPTS	DISBURSEMENTS	CASH BALANCE JUNE 30, 2018	ACCOUNTS RECEIVABLE JUNE 30, 2018	ACCOUNTS PAYABLE JUNE 30, 2018	FUND BALANCE JUNE 30, 2018
Academic Team	239	0	0	239			239
Agriculture (Shop)	2,325	0	99	2,226			2,226
Art Club	1,089	555	864	780			780
Athletic	45,033	105,568	141,235	9,366			9,366
B.O.S.S.	371	992	995	368			368
Concession	3,617	0	0	3,617			3,617
Dance Team	374	5,169	5,407	136			136
DECA	1,531	2,943	3,530	944			944
Drama	1,928	540	843	1,625			1,625
EMT	0	1,000	1,000	0			0
FCA	740	0	50	690			690
FFA	20,284	33,050	28,766	24,568			24,568
Flower & Gift Fund	792	2,397	2,718	471			471
Forensic Science	100	0	0	100			100
Horticulture	1,725	0	0	1,725			1,725
Library	2,127	510	30	2,607			2,607
Miscellaneous / General	23,223	26,927	37,462	12,688			12,688
ROTC	13,576	14,058	14,098	13,536			13,536
Senior Class	4,461	0	479	3,982			3,982
Senior Explorer Club	0	69,990	69,987	3			3
World Language	664	1,065	1,153	576			576
Spirit Club	304	0	0	304			304
Student Council	1,920	0	0	1,920			1,920
Teacher Coke Commissions	68	0	0	68			68
WLKR	2,290	440	1,916	814			814
Y-Club	1,545	10,552	9,365	2,732			2,732
Yearbook	3	20,353	10,989	9,367			9,367
Youth Service Center	691	1,477	1,574	594			594
Total All Funds	131,020	297,586	332,560	96,046	0	0	96,046
Interfund Transfers	0	(4,242)	(4,242)	0	0	0	0
Total	131,020	293,344	328,318	96,046	0	0	96,046

RUSSELL COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018

<u>FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM TITLE</u>	<u>CFDA NUMBER</u>	<u>PASS THROUGH NUMBER (if applicable)</u>	<u>MUNIS PROJECT NUMBER</u>	<u>EXPENDITURES</u>
<u>U.S. Department of Education</u>				
Passed-Through Department of Education				
Title I - Grants to Local Educational Agencies	84.010	3100002	310C	146,418
Title I - Parent Involvement	84.010	3100002	310CM	2,551
Title I - Grants to Local Educational Agencies	84.010	3100002	310D	989,840
Title I - Parent Involvement	84.010	3100002	310DM	2,504
Title I Cluster				<u>1,141,313</u> *
Title II - Part A -Teacher Quality Enhancement Grants	84.367	3230002	401C	20,242
Supporting Effective Instruction State Grants	84.367	3230002	401D	128,832
Title II Total				<u>149,074</u>
Title III - Limited English Proficiency	84.365	3300002	345C	1,268
Title III - Limited English Proficiency	84.365	3300002	345D	2,736
Title III Total				<u>4,004</u>
Perkins Voc.	84.048	3710002	348C	843
Perkins Voc.	84.048	3710002	348CA	1,287
Perkins Voc.	84.048	3710002	348D	24,821
Total Perkins Voc.				<u>26,951</u>
IDEA - Special Education - Grants to State	84.027	3810002	337C	256,219
IDEA - Special Education - Grants to State	84.027	3810002	337B	261,448
IDEA - Special Education - Grants to State	84.027	3810002	3373	258
IDEA - Special Education - Preschool	84.173	3810002	343B	20,394
Special Education Cluster				<u>538,319</u>
21st Century Learning Center	84.287	3400002	550CC	67,500
21st Century Learning Center	84.287	3400002	550B	23,033
21st Century Learning Center	84.287	3400002	550BC	10,521
21st Century Learning Center	84.287	3400002	550C	53,477
22nd Century Learning Center	84.287	3400002	550BU	16,584
23rd Century Learning Center	84.287	3400002	5505S	1,133
23rd Century Learning Center	84.287	3400002	5505J	4,550
23rd Century Learning Center	84.287	3400002	5505M	1,721
24th Century Learning Center	84.287	3400002	5505R	4,623
21st Century Learning Center Total				<u>183,142</u>

Migrant Education - State Grant Program	84.011	3110002	311C	21,168
Migrant Education - State Grant Program	84.011	3110002	311D	58,713
Migrant Education Total				<u>79,881</u>
Race to the Top	84.395	3960002	4364	3,683
Race to the Top	84.395	3960002	436B	1,077
Race to the Top	84.395	3960002	436C	2,779
Race to the Top Total				<u>7,539</u>
Impact Aid	84.410	Direct	GF	251,956
Federal Adult Education	84.002	365C	365C	4,815
Title IV - Rural and Low Income Schools	84.358	3140002	350C	1,508
Title IV - Rural and Low Income Schools	84.358	3140002	350D	43,916
Title IV - Rural and Low Income Schools Total				<u>45,424</u>
Total U.S. Department of Education				<u>2,432,418</u>
<u>U.S. Department of Defense</u>				
NJROTC	12.404	Direct	504D	79,734
<u>U.S. Department of Agriculture</u>				
Passed-Through State Department of Education				
Summer Food Service Program	10.559	7740023-17	7740023-17	1,750
Summer Food Service Program	10.559	7690024-17	7690024-17	16,988
National School Lunchroom	10.555	7750002-17	7750002-17	301,088
National School Lunchroom	10.555	7750002-18	7750002-18	1,067,650
School Breakfast Program	10.553	7760005-17	7760005-17	147,571
School Breakfast Program	10.553	7760005-18	7760005-18	519,519
Child Nutrition Cluster				<u>2,054,566</u>
Child and Adult Care Food Program (CACFP)	10.558	7790021-17	7790021-17	18,489
Child and Adult Care Food Program (CACFP)	10.558	7790021-18	7790021-18	74,454
Child and Adult Care Food Program (CACFP)	10.558	7800016-17	7800016-17	1,331
Child and Adult Care Food Program (CACFP)	10.558	7800016-18	7800016-18	5,359
Child and Adult Care Food Program (CACFP) Cluster				<u>99,633</u>
Pass-Through State Department of Agriculture				
Food Distribution	10.565	057502-10	057502-10	92,667
Total U.S. Department of Agriculture				<u>2,246,866</u>
Total Federal Financial Assistance				<u><u>4,759,018</u></u>

* Tested as major program

RUSSELL COUNTY SCHOOL DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the Russell County School District under programs of the federal government for the year ended June 30, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Russell County School District, it is not intended to and does not present the financial position, changes in net asset, or cash flows of Russell County School District.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting for proprietary funds and the modified accrual basis of accounting for governmental funds. Such expenditures are recognized following the cost principles contained in the Uniform Guidance wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are present where available.

NOTE C – FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule at the fair value of the commodities disbursed.

NOTE D – DE MINIMIS COST RATE

The District did not elect to use the 10 percent de minimis cost rate as allowed under the Uniform Guidance.

NOTE E – SUBRECIPIENTS

There were no subrecipients during the fiscal year.

RUSSELL COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018

Section I – Summary of Auditor’s Results

Financial Statements

Type of audit issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? _____ Yes X None Reported

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs?

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? _____ Yes X None Reported

Type of auditor’s report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a)? _____ Yes X No

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
84.010	Title I A Cluster

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? X Yes _____ No

Section II – Financial Statement of Findings

No matters were reported.

Section III – Federal Award Findings and Questioned Costs

No matters were reported.

RUSSELL COUNTY SCHOOL DISTRICT
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
JUNE 30, 2018

2017 -01: Finding

U.S. Department of Agriculture
10.555/10.553/10.559 Child Nutrition Cluster
Kentucky Department of Education

Criteria:

Costs must be supported by appropriate documentation. The documentation requirements of time and attendance for salaries and wages is described in 2 *CFR part 220/A21*.

Condition:

Documentation of time and attendance and/or periodic certifications was not completed for all employees charged to the Child Nutrition Cluster.

Cause:

Program administrators did not follow the payroll documentation requirements in 2 *CFR part 220/A21*.

Context:

A sample of payroll transactions related to the Child Nutrition Cluster was selected for compliance and internal control testing. It was determined that a portion of the program's administrative costs were for 100% of one individual's salary. However, there was no documentation of time and effort for this employee. Upon further investigation, it was determined that 12% of the employee's time worked was for the administration of other programs and not related to the Child Nutrition Cluster. The amount of salary for administering other programs was \$10,000, and this was charged to the Child Nutrition Cluster.

Effect:

The administrative costs were charged to the program without proper supporting documentation which resulted in noncompliance and questioned costs for the program.

Questioned Costs: \$10,000

Recommendation:

Employees paid from federal programs, including employees in administrative positions, should document their time and attendance specific to federal programs and/or complete periodic certifications for their time.

Management Response:

Management has implemented procedures in Fiscal Year 2017-2018 to correct this matter.

Current Year Status:

Documentation of time and attendance and/or periodic certifications was completed for all employees charged to federal programs.

WHITE AND COMPANY, P.S.C.
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October 5, 2018

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Members of the Board of Education
Russell County School District
404 South Main Street
Jamestown, KY 42629

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and *Appendix I to the Independent Auditor's Contract – Audit Extension Request*, *Appendix II to the Independent Auditor's Contract – Instructions for Submission of the Audit Contract*, *Audit Acceptance Statement*, *AFR and Balance Sheet*, *Statement of Certification*, and *Audit Report*, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Russell County School District, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Russell County School District's basic financial statements, and have issued our report thereon dated October 5, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Russell County School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Russell County School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Russell County School District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Russell County School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. In addition, the results of our tests disclosed no material instances of noncompliance of specific state statutes or regulation identified in *Appendix II of the Independent Auditor's Contract – State Audit Requirements*.

We noted certain matters that we reported to management of Russell County School District in a separate letter dated October 5, 2018.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Sincerely,

White and Company, P.S.C.

Certified Public Accountants

WHITE AND COMPANY, P.S.C.
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October 5, 2018

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED
BY THE UNIFORM GUIDANCE**

Members of the Board of Education
Russell County School District
404 South Main Street
Jamestown, KY 42629

Report on Compliance for Each Major Federal Program

We have audited Russell County School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Russell County School District's major federal programs for the year ended June 30, 2018. Russell County School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Russell County School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance); and *Appendix I to the Independent Auditor's Contract – Audit Extension Request*, *Appendix II to the Independent Auditor's Contract – Instructions for Submission of the Audit Contract*, *Audit Acceptance Statement*, *AFR and Balance Sheet*, *Statement of Certification*, and *Audit Report*. Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Russell County School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Russell County School District's compliance.

Opinion on Each Major Federal Program

In our opinion, Russell County School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

Report on Internal Control Over Compliance

Management of Russell County School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Russell County School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Russell County School District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that a material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Russell County School District as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Russell County School District's basic financial statements. We issued our report thereon dated October 5, 2018, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Sincerely,

White and Company, P.S.C.

Certified Public Accountants

WHITE AND COMPANY, P.S.C.
Certified Public Accountants
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Charles M. White, CPA
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October 5, 2018

MANAGEMENT LETTER

Members of the Board of Education
Russell County School District
404 South Main Street
Jamestown, KY 42629

In planning and performing our audit of the financial statements of Russell County School District for the year ended June 30, 2018, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. Our professional standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We feel that the District's financial statements are free of material misstatement. However, we offer the following suggestions that we feel will strengthen your organization's internal control structure.

In addition, we have reviewed recommendations made by the prior auditors in the audit report for the year ended June 30, 2018, and we have reviewed management's responses to those recommendations. Our findings based upon those prior year recommendations are also summarized below.

Prior Year Recommendations – School Activity Funds:

2017-1 Prior Year Recommendation:

During the testing of the school activity funds, it was noted that there were 12 instances at Russell County High School and 1 instance at Russell County Middle School where there was a lack of documentation to prove receipt of goods purchased.

Current Year Status and Recommendation:

During the testing of the school activity funds, it was noted that there were eight instances at Russell County High School, five instances at Russell County Middle School, and one instance at Salem Elementary where there was a lack of documentation to prove receipt of goods purchased. We recommend that proof of receipt of goods be clearly documented prior to disbursement of funds for payment of the goods. It is noted that this has been a recommendation two consecutive years.

Management Response:

We will inform school personnel that when goods are received, the receiving party must document that items ordered have been received prior to payment of the invoice.

2017-2 Prior Year Recommendation:

During the testing of the school activity funds' cash receipts, it was noted that there were instances where the receipt did not have both the sponsor and the bookkeeper's signature verifying the funds received. We recommend that sponsors and school bookkeepers be made aware of the requirement that both signatures are required on receipts as proof of receipt of funds.

Current Year Status and Recommendation:

No such instances were found at any school in the current year.

Current Year District Recommendation:

2018-1 Current Year Recommendation

During current year testing, six instances were noted where there was a lack of documentation to indicate receipt of goods.

Management Response:

We will inform district personnel that when goods are received, the receiving party must document that items ordered have been received prior to payment of the invoice.

2018-2 Current Year Recommendation

During testing, five instances were found of purchase orders approved after the charge was incurred. We recommend that all disbursements be supported by a purchase order that has been properly approved prior to the date the charge is incurred in accordance with District policies and procedures.

Management Response:

We will take measures to ensure that approval is obtained prior to the funds being committed for goods or services.

2018-3 Current Year Recommendation

During the course of our audit, one instance was found where a purchase order was issued without a specific amount approved. Blanket purchase orders are acceptable; however, a maximum amount should be provided when approval is made. In another instance, a purchase order was created but the actual disbursement exceeded the approved purchase order. We recommend that all purchase orders be fully completed and approved. If a purchase order is completed and approved based on an estimated expenditure level and that level is going to be exceeded, a second purchase order should be created and approved to ensure that all disbursements have been properly approved prior to the charge for goods being incurred by the District.

Management Response:

We will communicate the procedures for blanket purchase orders with District personnel and will instruct personnel to request a second purchase order if a blanket or estimated purchase order will be exceeded by the actual purchases prior to purchasing the goods.

Current Year Recommendations – School Activity Funds:

2018-4 Current Year Recommendation:

During current year testing, five instances at Russell County High School and a single instance at Russell County Middle School were found where sponsors or teachers were filling in student names on the multiple receipt form. We recommend that all teachers, sponsors, bookkeepers and principals be informed and require students third grade and above to sign multiple receipt forms.

Management Response:

We will communicate to all teachers and sponsors that it is required that students third grade and above sign the multiple receipt form at the time funds are remitted by the students. We will further communicate with bookkeepers and principals that multiple receipt forms should be reviewed at the time of submission to ensure students third grade and above have signed their names.

2018-5 Current Year Recommendation:

During the course of the audit, one instance was found where a multiple receipt form was used to document all sales for a fundraiser rather than a fundraiser worksheet. We recommend that all fundraisers contain proper supporting documentation in accordance with Redbook policies and procedures.

Management Response:

We will use fundraiser approval forms and fundraiser worksheet forms when administering all fundraisers.

We will review the status of this comment during our next audit engagement. We have already discussed this comment and suggestion with various District personnel, and we will be pleased to perform any additional study of this matter or to assist you in implementing the recommendation.

We would like to offer our assistance throughout the year if and when new or unusual situations arise. Our awareness of new developments when they occur would help to ensure that the District is complying with requirements such as those mentioned above.

Sincerely,

White and Company, P.S.C.

Certified Public Accountants

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Charles M. White, CPA
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Email charles.white@whitecpas.com

October 5, 2018

Members of the Board of Education
Russell County School District
404 South Main Street
Jamestown, KY 42629

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Russell County School District for the year ended June 30, 2018. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, Government Auditing Standards and the Uniform Guidance), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated April 23, 2018. Professional standards also require that we communicate to you the following information related to our audit.

Significant Auditing Findings:

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Russell County School District are described in Note A to the financial statements. In 2018 the District adopted new accounting guidance, GASB No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. No other new accounting policies were adopted and the application of existing policies was not changed during 2018. We noted no transactions entered into by Russell County School District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate of the sick leave liability is based on current pay rates and those currently eligible for retirement. We evaluated the key factors and assumptions used to develop the sick leave liability in determining that it is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management had corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 5, 2018.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to Russell County School District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were not such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Russell County School District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to management's discussion and analysis and budgetary comparison information, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were not engaged to report on the budgetary comparison information on pages 55 and 56, or on the schedules of the district's proportionate share of net pension liabilities and other post-employment benefit plans on pages 57-58 and 61-63, or on the schedules of contributions to the County Employees Retirement System and Teachers Retirement System pension plans or the County Employees Retirement System and Teachers Retirement System other post-employment benefit plans on pages 59-60 and 64-66, which accompany the financial statements but are not RSI. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Restriction on Use

This information is intended solely for the use of Members of the Board of Education and management of Russell County School District and is not intended to be, and should not be, used by anyone other than these specified parties.

Sincerely,

White and Company, P.S.C.

Certified Public Accountants